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FHA INVESTIGATION

REPORT

OF THE

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FHA INVESTIGATION UNDER SENATE RESOLUTION 239

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REPORT OF FHA INVESTIGATION

JANUARY 6, 1955.—Ordered to be printed with an illustration

Mr. CAPEHART, from the Committee on Banking and Currency, submitted the following

REPORT

PART I. INTRODUCTION AND SUMMARY STATEMENT

To stimulate the national economy, the Congress in 1934 passed the National Housing Act, giving Government financing assistance to residential construction and home repair programs. Subsequently, Congress amended the act to encourage the construction of badly needed rental housing units. But a few greedy, and sometimes dishonest, builders and repairmen and incompetent, lax, and sometimes dishonest FHA officials, used the act as a vehicle to enable a few to reap fortunes at the expense of the American people.

This investigation originated in the action taken by the President of the United States on April 12, 1954, when he directed the Administrator of the Housing and Home Finance Agency to take into custody the records of the Federal Housing Administration. This action by the President resulted from a report by the Commissioner of Internal Revenue, T. Coleman Andrews, showing large windfall profits in 1,149 rental housing projects disclosed by the income-tax returns of the corporations sponsoring those projects and by a report of the Federal Bureau of Investigation which we understand disclosed widespread frauds and irregularities under the title I home repair and improvement program.

There was then pending before this committee the bill which subsequently became the Housing Act of 1954. Preliminary hearings on the charges inherent in the President's announcement were held by this committee April 19–29, 1954, in connection with the pending legislation, as a result of which the committee added safeguards to the law to prevent the then known abuses.

The magnitude of the irregularities involved made necessary a more comprehensive investigation of FHA. This committee unanimously approved, and the Senate unanimously adopted, Senate Resolution 229 providing funds for this committee's investigation of the ad-

ministration of the National Housing Act by the Federal Housing Administration.

Forty-three days of public hearings in this inquiry were held during the period from June 28, 1954, through October 8, 1954, in Washington, New York, Los Angeles, New Orleans, Chicago, Indianapolis, and Detroit. The committee heard 372 witnesses in public hearings and recorded 7,754 pages of testimony. All witnesses appearing before the committee at public hearings other than public witnesses had previously testified in executive session. The testimony of the 671 witnesses who appeared in executive session ran to 18,044 typewritten pages. From these executive hearings a determination was made of the witnesses to be heard in public.

The committee heard public testimony with respect to 543 (7.7 percent) of the 7,045 projects insured under section 608 of the National Housing Act. The total FHA insured mortgages on these 543 projects were $738.5 million. The statute provided for FHA insured mortgages not in excess of 90 percent of the estimated cost of the project. Presumably, therefore, the sponsors of those projects should have had in excess of $73 million of their own capital invested in those projects. However, the testimony showed that in 437 of those projects involving mortgages totaling $590.1 million, the mortgage proceeds exceeded all costs of every kind or description. In those cases the mortgage proceeds exceeded 100 percent of the costs, according to the builders' own computation of their costs, by $75.8 million. In the remaining 106 cases, involving mortgages of $148.4 million, the mortgage proceeds fell short of meeting all costs by $6.8 million, but even this investment was far less than the 10 percent contemplated by the statute.

While the builders' own computation of the excess of mortgage proceeds over cost was used in those cases, our inquiry indicates that these costs, in at least some cases, and we do not know how many cases, included improper charges. An audit of the actual cost in each case would undoubtedly result in excess mortgage proceeds over actual costs in a greater sum.

In these projects, upon completion, the sponsors were the owners of the buildings and had in their pockets excess mortgage proceeds in cash amounting to millions of dollars (after paying, or reimbursing themselves for the payment, of every cost in connection with the project from land acquisition to lawyers' fees). There is no personal responsibility or liability upon the builder or sponsor to repay the borrowed mortgage money. Only the property is liable for the repayment of the debt, over a period of 30 or more years, from the rental income to be paid by the tenants.

In a great many cases sponsors filed consolidated tax returns to avoid the payment of any Federal income taxes on these funds—money they received which they are never required to repay. In most other cases of windfall profits the device of obtaining an increased appraisal of the property and of writing up its value was used to disburse these funds as a distribution of "surplus" which was claimed to be taxable only at 25 percent as a long-term capital gain. In but few cases were normal income taxes paid on these funds.

The FHA program involved over $34 billion of Government-insured financing. The largest portion, $17.5 billion, financed the construction of 2.9 million single-family homes under section 203 of the act.

The home repair and improvement program, under title I of the act, accounted for $8 billion of Government commitments. The 2 major programs under title VI accounted for $7 billion of Government-guaranteed commitments, divided about equally between the 1- to 4-family dwellings under section 603 of the act and the multifamily rental apartments under section 608 of the act. The military and defense housing programs under sections 803 and 903 of the act utilized $1 billion of Government-guaranteed commitments. A summary of the number of loans, the number of units, and the original amount of Government commitments issued to June 30, 1954, is included in the appendix (p. 127).

The FHA rental housing program made a very substantial contribution toward providing badly needed rental housing in the period during and after World War II. A total of 465,683 rental units were built in 7,045 projects under section 608. This was a considerable accomplishment achieved under the National Housing Act. But we are not prepared to accept the premise that adequate rental housing cannot be made available to the American people except when unconscionable profits are realized through abuses and irregularities in the program. We recognize the accomplishments of FHA's rental housing program and the integrity of most FHA employees and builders. We are critical only of the unlawful and improper practices which accompanied the program; and we do not admit that such a program cannot be honestly and properly successful.

We have frequently been told that the building industry will not build multifamily rental housing unless the builder can make a fair profit out of the Government-financed mortgage funds and also continue to own the property without any substantial investment. If that is the only alternative it is better that the Government build such projects itself.

The basic vehicles through which these irregularities were achieved by some builders were the filing of false applications by builders and the making of unrealistic appraisals and estimates by FHA. There is almost no case in which a builder achieved a substantial windfall in which his application for an FHA mortgage commitment did not contain false statements. Some builders have valued land at 3, 4, and 5 times its cost, frequently within a matter of days after they had purchased the land. The committee found projects where the estimated architect's fees were 5 or 10 times the amount provided for in written contracts for those services. They have included land as an equity investment in the project when in fact their prearranged agreements provided for payment for the land out of the mortgage proceeds. They have even estimated construction costs substantially higher than the costs called for in written contracts with the building contractor.

This was accompanied by corruption in some cases. In a great number of cases the substantial entertaining and wining and dining of FHA people by builders appears to have been to the disadvantage of the public. In other cases FHA employees were working for and being paid by the very builders whose applications they were processing. In still other cases FHA employees seem to have been incompetent to administer the program in their charge.

The Congress sought to prevent frauds by making it a crime, punishable by a $5,000 fine and imprisonment for 2 years, to make any false statement or to willfully overvalue any asset in an FHA applica-

tion. FHA, on the other hand, apparently considered itself obligated to obtain rental housing at any cost, and thereby accepted the many demands and devices of builders. FHA not only ignored that criminal provision of the act, but it virtually invited builders to make false statements in their applications by publicly stating that it would not consider incorrect statements in applications as having any materiality. Most of these frauds could not have occurred if the builders had been required to file truthful applications.

The statute of limitations on the crime of filing a false application under the National Housing Act is 3 years. Since no applications could have been filed after the expiration of the act on March 1, 1950 (except for amendments to then existing applications) it appears that the statute of limitations is a bar to present criminal prosecution of these offenses. In 1951, and again in 1953, the Attorney General sought to prosecute builders for making false or incomplete disclosures. In each case the General Counsel of FHA advised that FHA was not deceived because it did not rely on the statements of the builders. We concur in the views apparently expressed by two Attorneys General that the offense of making false statements in FHA applications should be subject to criminal prosecution and we cannot condone the action of FHA in preventing this action. Nor can we approve the position of FHA in allegedly paying no attention to the statements in the builders' applications.

We have heard that many of its loose practices were the result of a vigorous effort by FHA to induce builders to construct more rental housing projects. It is for the Congress, however, to determine the extent to which the Federal Government will go in subsidizing and stimulating rental housing. FHA had authority to encourage the construction of housing only within the limitations, incentives, and permissive conduct provided for by the acts of Congress.

The unconscionable windfall profits have not infrequently been linked by builders with the crying demand for rental housing in the postwar era. The Congress, with the concurrence of FHA, felt this pent-up demand had been substantially met by the end of 1949 for it permitted section 608 of the act to expire on March 1, 1950. Significantly we find almost no windfalls in the years 1946–48 when the housing shortage was greatest. There were a few windfalls in 1949. But the greatest number of the largest and most unreasonable windfalls occurred in 1950–51. Most of those projects were not completed until after the expiration of this section of the act.

In 1947 the Congress sought to preclude excessive valuation of these projects by amending the act to provide that "the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the *actual costs of efficient building operations.*" The record discloses that FHA wholly ignored this act of Congress.

In compliance with the statute FHA's mortgage commitment could not exceed 90 percent of its estimated cost of construction. Therefore, wherever the actual cost of a project was 15 percent below the amount of the FHA insured mortgage it was 25 percent below the FHA estimate of costs. In some projects this variance was as much as 30 and 40 percent. Rentals that owners of FHA insured projects were permitted to charge were based, not on the actual costs, and not on the amount of the mortgage, but on the original FHA estimate of

costs. Permissive rents included a 6½ percent return on this FHA estimate of costs or on comparable rentals of similar accommodations, whichever was the lower.

Excessive mortgages require higher rental income to meet the additional interest and amortization charges required by the increased amount of the mortgage. In the present rental market, which continues to be tight in some areas of the country, some tenants are paying excessive rent to carry these inflated mortgages. They will continue to be required to do so unless other rental facilities become available to them. If and when the time comes that tenants have the opportunity to move to rental projects not requiring these inflated carrying charges, it is not unlikely the owners of such projects will be unable to obtain the rents necessary to carry their projects. We may then expect a substantial number of these properties to be returned to the FHA under its guaranty of the mortgage, as the inadequate income precipitates mortgage defaults.

Either the tenants or the FHA must pay the costs of those excessive mortgages. To date most of that cost has been visited upon helpless tenants.

We are not unmindful of the responsibility of the Congress, which enacted the National Housing Act. The record, however, leads to the inescapable conclusion that these frauds could not have occurred had the criminal penalties against false applications been enforced, and had FHA complied with the 1947 amendment to the act in making its estimates "as close as possible to the actual costs of efficient building operations." It was not defects in the statute, but its maladministration by FHA, which was responsible for these frauds. The Congress can be criticized only for having waited so long to investigate this program.

The home-repair and improvement program, under title I of the Housing Act, was adopted in 1934 to stimulate business and encourage needed home repairs. The act permits a homeowner to make repairs without making any downpayment to the contractor and permits the contractor to discount the homeowner's note at a bank with an FHA guaranty. Over the years "suede-shoe salesmen" and "dynamiters," whose ranks have included racketeers and gangsters, have infiltrated this business. They have used fraudulent and deceptive sales practices on thousands of homeowners.

In the belief that home repairs of substantial value would cost them little or nothing many homeowners have signed contracts which they did not read or understand. After obtaining work which was either unsatisfactory or worthless, these homeowners found that a bank held their note for a substantial sum of money and that under the law they had no defense to the payment of the note, in spite of the frauds practiced upon them. The testimony shows that many lending institutions were, at a minimum, careless in accepting notes from questionable dealers and thereby encouraged these fraudulent practices.

Most home-repair contractors are both honest and reliable. But laxity in the administration of the title I program enabled dishonest people to make large sums in illicit profits from owners of small homes who perhaps could least afford the losses.

The Commissioner of Internal Revenue has indicated an intention to vigorously prosecute the tax laws to recover for the Government such sums as are due to it from these recipients of ill-gotten gains. We urge

the Commissioner to continue, and if possible to increase, the vigor of this program. The Department of Justice has during the course of this investigation convicted 60 persons and obtained 78 indictments against 126 persons for offenses connected with the National Housing Act, largely under the title I home improvement program. Up to the present time, there have been very few convictions under section 608. The Department of Justice and the United States district attorneys are urged to continue, and if possible to increase, the vigor of their prosecutions of all who have committed criminal offenses under the National Housing Act where the statute of limitations has not expired.

This committee has turned over to the Attorney General and to the Commissioner of Internal Revenue data and information obtained during our investigation. The committee wishes to express its appreciation to the General Accounting Office, the Bureau of Internal Revenue, the Department of Justice, and the Federal Trade Commission for the complete and most helpful cooperation each of them extended during this investigation.

It is not possible to state the total cost of the section 608 program to FHA to this date. As of May 31, 1954, the FHA had become the owner of either the properties or the mortgage notes of 291 section 608 projects containing 18,850 units and representing an investment of $128.7 million. Forty-one of these properties, in which FHA had an investment of $13.9 million, have been sold for a net loss of $952,880. Until the FHA is able to sell the remaining 250 properties in default, it is not possible to estimate what, if any, will be its loss on this $114.8 million investment. There is available for section 608 losses a reserve fund of $105.2 million. Inflation during the last 5 years has minimized the FHA's present loss and has perhaps prevented other defaults. The FHA and the Federal Government continue to be liable for the over $3 billion of mortgage commitments which remain outstanding under the section 608 program. (For summary of the section 608 program, see chart on p. 72.)

It is difficult, if not impossible, to estimate the total amount by which the American people were defrauded in the FHA program. We have inquired into only 543 of the 7,045 projects constructed under section 608 of the act in which the Government's commitments totaled $3.4 billion. In projects that we have examined the total costs were more than $75 million less than the mortgage proceeds, although the statute contemplated that in projects of that dollar volume the costs would have been $73 million in excess of the amount of the mortgage. And that total represents the builders' own computation of costs shown in at least some cases to be excessive. Rents in FHA insured projects are based upon the FHA estimate of the cost to construct the project. For every $1 million of excessive estimate, the tenants may pay as much as $65,000 a year excessive rent—for the 30-year life of the mortgage.

We did not have the opportunity to examine many of the 1- to 4-family rental projects in the $3.6 billion program under section 603 of the act. In one case, however, we found a $29 million mortgage to be more than $5 million in excess of the actual costs of the project.

In the $8 billion home repair and improvement program there are many cases in which homeowners were charged 2, 3, and 4 times the value of the work done; and in some cases the work was actually

worthless. In many cases the commissions of the so-called salesmen, called "dynamiters" in the trade, ran to 50 percent of the charge made to the homeowner for the work.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR, DOUGLAS, AND LEHMAN

We appreciate the fact that the committee has adopted many of the suggestions we have made for changes in this and other sections of the report. For this reason, and because we believe there is much in it to be commended, we have not objected to the issuance of the report, although we have reservations with respect to portions of it. We shall note some of our reservations at points in the text of the report. (See also pages 34, 50, and 106.)

As to this section, we feel the report goes too far toward giving the impression that virtually all cases involving an excess of mortgage amount over actual costs involved fraud—especially if fraud is given the meaning which it has in criminal proceedings.

The report correctly points out that unrealistic appraisals and estimates in builders applications were encouraged by the fact that FHA did not consider these practices to be fraudulent and did not rely on them in making its own evaluation.

In passing judgment on these facts, however, the committee should take into consideration that under the law at that time, or even now, FHA's determination of the mortgage amount was not to be based upon the actual costs of a completed individual project, nor upon the estimates of costs, or contract costs, in the application, but upon FHA's own estimates.

Congress permitted FHA to make its determination of mortgage amounts on the basis of the estimated replacement costs of the project. This determination had to be made in advance of construction, upon the basis of FHA's own estimates, not those of the builder, nor the actual cost of the completed project.

The standard practice of evaluating land, therefore, was not what it may have cost the owner but its estimated value. As to architects' fees and builders' profits, the practice was not what actually was paid, but what normally would be paid, if the construction were to be duplicated.

That these estimates by the FHA were faulty in many cases is apparent. That certain FHA officials were lax in their exercise of authority to prevent excessive profits is also apparent. That some builders wrung excessive profits out of a war-created housing emergency is less than admirable.

Undoubtedly there were cases of fraud. It is going too far, however, to imply, as we believe the report does, that all who overestimated costs and received excessive mortgage money were guilty of legal "fraud," and have escaped prosecution only because the statute of limitations has expired.

PART II. STATUTE: THE NATIONAL HOUSING ACT

The point of beginning in any inquiry of the Federal Housing Administration is the National Housing Act adopted by the Congress in 1934 by which the Federal Housing Administration was created and under which its duties were set forth. Under our constitutional form of government, it is the function of Congress to enact workable legislation. The executive branch must intelligently and properly administer that legislation as passed by the Congress. Arguments have been made as to the economic soundness of the National Housing Act, particularly of section 608. We have not attempted, however, to reappraise the economic issues before the Congress in passing the National Housing Act. Our inquiry has been directed toward how the law worked out, and whether its deficiencies resulted from poor legislative drafting of the law or from poor administration. The Congress should be held responsible for abuses only if it failed to permit and provide for proper administration of the program.

The specific provisions of the statute throw great light on the extent to which FHA intelligently and honestly administered the housing program as well as the extent to which the Congress exercised its legislative responsibility. Nine sections of this act have been reviewed, to a lesser or greater extent, in this investigation. The committee's principal inquiry has been of the administration of the home-repair and improvement program provided for in section 2 under title I of the act, and the multifamily rental projects administered under title VI, section 608, of the act. Attention has been directed particularly to these programs because the greatest abuses were concentrated there.

Other programs inquired into more briefly by the committee are: Guaranties of mortgages of 1- to 4-family sale houses under section 203 of the act; guaranties of mortgages for multifamily rental projects under section 207 (at 80 percent of economic value, as distinguished from 90 percent of estimated costs under sec. 608); guaranties of mortgages for supposedly nonprofit cooperative ventures at 95 percent of estimated costs under section 213; guaranties of mortgages for 1- to 4-family houses under section 603; guaranties of mortgages of multifamily residential projects at military bases under section 803; guaranties of single- and 2-family residential houses in defense areas under section 903; and Federal subsidies for slum-clearance projects under title I of the Housing Act of 1949.

History of section 608

Section 608, about which there has been a great deal of controversy, was added to the National Housing Act on May 26, 1942 (Public Law 559, 77th Cong.). It authorized the FHA Administrator to insure mortgages on property "designed for rent, for residential use by war workers". The principal amount of any such mortgage was limited to $5 million; there was a further limitation of $1,350 per room. The act also provided that mortgages could not exceed 90

percent of the Administrator's estimate of the "reasonable replacement cost" of the completed project "including the land; the proposed physical improvements; utilities within the boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Administrator." A further limitation was that the mortgage could not exceed the "amount which the Administrator estimates will be the cost of the completed physical improvements on the property or project, exclusive of off-site public utilities and streets, and organization and legal expenses."

The Administrator was authorized to require the mortgagor to be regulated or restricted as to "rents, or sales, charges, capital structure, rate of return, and method of operation." In order to enforce these restrictions effectively, the Administrator was authorized to acquire $100 of stock in any such mortgagor.

Many changes were made in the act in 1946 (Public Law 388, 79th Cong.). Priority in occupancy of the FHA insured properties was given to veterans of World War II and their immediate families. The maximum mortgage per room was increased to $1,500 and the Administrator was given discretion to increase this amount to $1,800 per room if cost levels so required. The basis for the Administrator's estimate of cost was changed from "reasonable current cost" to "necessary current cost".

A major amendment to the section was made December 31, 1947, when Congress imposed the restriction that:

> In estimating necessary current cost for the purposes of said title, the Federal Housing Commissioner shall therefor use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations. (Public Law 394, 80th Cong.).

In 1948 a maximum limitation of $8,100 per family unit was substituted for the previous maximum limitation of $1,800 per room (Public Law 901, 80th Cong.). This turned out to be a very significant change for thereafter many projects were authorized in which 70 to 90 percent of the apartments were 1-room efficiencies. That amendment also added a provision requiring—

> That the principal obligation of the mortgage shall not, in any event, exceed 90 percent of the Administrator's estimate of the replacement cost of the property or project on the basis of the costs prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located.

A new requirement was added that the mortgagor must certify that in selecting tenants for the property covered by the mortgage, he would not discriminate against any family by reason of the fact that there were children in the family.

The final extension of the program came in 1949 when March 1, 1950, was established as the terminal date (Public Law 387, 81st Cong.). The program was permitted to expire on that date.

History of section 603

Section 603 was added to the National Housing Act in 1941 to provide 1- to 4-family sale and rental housing to meet the acute shortage caused by the national-defense activities (Public Law 24, 77th Cong.). The original requirements for insurance eligibility were that (1) the mortgage could not exceed 90 percent of appraised value and $4,000 for a 1-family dwelling, $6,000 for a 2-family residence, $8,000 for a

3-family residence, and $10,500 for a 4-family residence and (2) the mortgage could not have a maturity in excess of 20 years.

In 1946, priority under this section was given to veterans and their families and two major changes were made. The first change substituted necessary current cost for appraised value in determining the maximum amount of the mortgage under the 90-percent mortgage formula. The second authorized the Commissioner to prescribe higher maximum insurable mortgage amounts for these one to four family-size dwellings if he found that at any time or in any particular geographic area it was not feasible within the mortgage limitations to construct such dwellings without sacrifice of sound standards of construction, design, or livability. The higher maximum insurable amounts were $8,100, $12,500, $15,750, and $18,000 for 1-, 2-, 3-, and 4-family dwellings respectively (Public Law 388, 79th Cong.).

Authority to insure mortgages under this section was terminated on April 30, 1948 (Public Law 901, 80th Cong.).

History of section 203

Section 203 has been a part of the National Housing Act since 1934 (Public Law 479, 73d Cong.). This program provided for FHA mortgage insurance on 1- to 4-family sales houses. This committee did not inquire into that program as a part of this investigation. The principal amount of a mortgage under this section could not exceed $16,000 or 80 percent of the appraised value of the property, and the term of the mortgage could not exceed 20 years.

In 1938, section 203 was amended to provide 2 additional plans of mortgage insurance for single-family owner-occupant dwellings (Public Law 424, 75th Cong.).

Under one plan, the mortgage could not exceed $5,400 or 90 percent of the appraised value and the term of the mortgage could not exceed 25 years.

The other new plan provided that the mortgage could not exceed $8,600 and could not exceed the sum of 90 percent of $6,000 of the appraised value plus 80 percent of such value in excess of $6,000 up to $10,000. The term of the mortgage was limited to a maximum of 20 years.

The Housing Act of 1954 repealed many overlapping and complex provisions of section 203 and established a simpler and more liberal formula for determining maximum mortgage limitations (Public Law 560, 83d Cong.). The section now provides that the maximum amounts of mortgages which can be insured by FHA are $20,000 for a 1- or 2-family residence; $27,500 for a 3-family residence; and $35,000 for a 4-family residence. The mortgage cannot exceed the sum of 95 percent of $9,000 of appraised value and 75 percent of the appraised value in excess of $9,000, with authority for the President to increase the $9,000 limitation to $10,000 if he determines such action to be in the public interest.

If the mortgagor is not the occupant of the property, the maximum loan to value ratio cannot exceed 85 percent of the mortgage loan which an owner-occupant can obtain. The maximum maturity of mortgages insured under section 203 cannot exceed 30 years or three-quarters of the Commissioner's estimate of the remaining economic life of the building improvements, whichever is lesser.

History of section 207

Section 207 was another one of the original programs of the National Housing Act of 1934 and provided mortgage insurance for rental housing (Public Law 479, 73d Cong.). Title to the property had to be held by Federal or State instrumentalities, private limited dividend corporation, or municipal corporate instrumentalities, formed for the purpose of providing housing for persons of low income. These instrumentalities and corporations were required to be regulated by law or by the FHA Administrator as to rents, charges, capital structure, rate of return, or methods of operation. The maximum mortgage insurance could not exceed $10 million for one project.

In 1938, section 207 was amended to provide that certain regulated private corporations could qualify as mortgagors (Public Law 424, 75th Cong.). The amount of the mortgage could not exceed $5 million, nor exceed 80 percent of the Administrator's estimate of the value of the project when the proposed improvements were completed, and could not exceed $1,350 per room.

In 1939, section 207 was amended to provide that the amount of the insured mortgage could not exceed the Administrator's estimate of the cost of the completed physical improvements on the property, exclusive of the following: Public utilities and streets, taxes, interest and insurance during construction; organization and legal expenses; and miscellaneous charges during or incidental to construction (Public Law 111, 76th Cong).

The Housing Act of 1948 (Public Law 901, 80th Cong.) made further major changes in this section. Redevelopment and housing corporations were added to the list of public corporate bodies which could be permissible mortgagors and an exception to the $5 million mortgage limitation was made for public corporate mortgagors setting their mortgage ceiling at $50 million.

The amount of the insured mortgage could not exceed 80 percent of the amount which the Administrator estimated would be the value of the property or project when the proposed improvements were completed, including the land; the proposed physical improvements, utilities within the boundaries of the property or project, architects' fees, taxes, and interest accruing during construction, and other miscellaneous charges incident to construction and approved by the Administrator.

Moreover, for the private corporate mortgagor the mortgage could not exceed the Administrator's estimate of the cost of the completed improvements exclusive of public utilities and streets and organization and legal expenses. The amount of the mortgage could not exceed $8,100 per family unit in any case.

Major changes were made in the provisions of section 207 by the enactment of the Housing Act of 1950 (Public Law 475, 81st Cong.). The section 207 mortgagor was required to certify that he would not discriminate against children in selecting tenants for the projects. The amount of the mortgage could not exceed 90 percent of the first $7,000 of estimated value per family unit plus 60 percent of such estimated value in excess of $7,000 up to $10,000 per family unit. A further modification stated that the mortgage could not exceed $8,100 per family unit or $7,200 per family unit if there were less than 4½ rooms in the family unit.

A further major change in the loan to value ratio came in 1953 (Public Law 94, 83d Cong.). The language was reinstated that the mortgage amount could not exceed 80 percent of the estimated value of the completed project and the more complex formula was discarded. The maximum mortgage limits were set at $2,000 per room, $7,200 per family unit of less than 4½ rooms and a maximum of $10,000 per family unit.

The Housing Act of 1954 provided for maximum mortgages of $2,000 per room and $7,200 per family unit of less than 4 rooms (Public Law 560, 83d Cong.). The $10,000 per family unit limitation was repealed. However, the Commissioner was given the discretion to increase the per room limitation to $2,400 and the family unit limitation to $7,500 in elevator-type structures to compensate for the higher costs of construction for such structures. No change was made in the loan to value ratio.

A new provision was added to prevent "windfall profits," by requiring the builder to certify the amount of his actual costs. If the proceeds of the mortgage exceed the approved percentage of actual costs, the excess must be paid to the mortgagee for the reduction of the mortgage principal.

History of section 213

The section 213 cooperative housing insurance program was enacted in April 1950 (Public Law 475, 81st Cong.). The law provided for two types of nonprofit cooperative projects: management and sales type dwellings. The principal amount of the mortgage for the management type projects could not exceed $5 million per project; $8,100 per family unit or $1,800 per room; and 90 percent of the estimated replacement cost.

Two exceptions to these maximum limitations for World War II veterans provided increased allowances for each 1-percent increase in veteran's membership in the cooperative and, if at least 65 percent of the membership of the cooperative were veterans, the maximum mortgage limitation was $8,550 per family unit or $1,900 per room with a 95 percent maximum ratio of loan to value.

The maximum mortgage limitation of $5 million per project applied also to the cooperative sales type dwellings. In addition, the principal amount of the mortgage could not exceed the greater of either the limitations described above for cooperative management type projects or the limitations required by section 203 of the National Housing Act.

In October 1951, section 213 was amended to include veterans of the Korean war within its benefits (Public Law 214, 82d Cong.).

The Housing Act of 1954, adopted on August 2, 1954, has further amended section 213 (Public Law 560, 83d Cong.). A provision was added to permit FHA-insured cooperative housing mortgages to be as high as $25 million in amount if the mortgagor cooperative is regulated by Federal or State law as to rents, charges, and methods of operation.

This section also changed, with respect to nonveteran projects, the former limitation on mortgage amounts of $1,800 per room or $8,100 per family unit to $2,250 per room and the family unit limitation is applicable only if the number of rooms is less than four. Also, there is a change from a cost basis to a valuation basis. In addition, the basis for allowing increases in mortgage limitations for veteran mem-

bership was changed so that such increases can be made only if 65 percent of the members of the cooperative are veterans.

The Commissioner was authorized in his discretion to increase the dollar amount limitations for elevator-type structures in both veteran and nonveteran projects. The maximum increases permitted are $2,250 per room to $2,700; $2,375 per room to $2,850; $8,100 per family unit to $8,400; and $8,550 per family unit to $8,900.

History of section 803

Title VIII was added to the National Housing Act on August 8, 1949 (Public Law 211, 81st Cong.). Section 803 stated that the purpose of this program was to provide rental housing accommodations for civilian and military personnel of the Armed Forces at or in the area of military installations where there was an acute shortage of housing. The Secretary of Defense was required to certify that the housing was necessary and the installation concerned was a permanent part of the military establishment and there was no present intention to substantially curtail activities there.

The principal amount of the mortgage on such a project cannot exceed $5 million, cannot exceed 90 percent of the amount which the Commissioner estimates will be the replacement cost of the property or project when the proposed improvements are completed, and cannot be more than $8,100 per family unit, except in an exceptional case in which the Secretary of Defense certifies that the need would be better served by single-family detached dwellings, the mortgage limitation is $9,000 per family unit.

By amendment in 1951, personnel of the Atomic Energy Commission employed at AEC installations were included within the benefits of this law. In addition, the Commissioner was authorized to increase the limitation from $8,100 per family unit up to $9,000 where cost levels so required (Public Law 139, 82d Cong.).

In 1953 an "antiwindfall profits" provision was added which required the builder, upon completion of the project, to certify his actual costs and to pay the mortgagee, for reduction of the mortgage, the amount by which the mortgage proceeds exceeded the actual costs (Public Law 94, 83d Cong.).

The Housing Act of 1954 extended to June 30, 1955, the program under section 803 (Public Law 560, 83d Cong.).

History of section 903

Section 903 was added to the National Housing Act in 1951 to provide adequate housing in areas which the President determines to be critical defense areas (Public Law 139, 82d Cong.). The requirements for insurance under this section provide that the mortgage must cover property designed for residential use of not more than 2 families and cannot exceed 90 percent of the appraised value. The mortgage cannot exceed $8,100 for a single-family dwelling and $15,000 for a two-family dwelling except that the Commissioner may increase these amounts to $9,000 and $16,000, respectively, if he finds the cost levels so require. These dollar amount limitations may be further increased up to $1,080 for each additional bedroom in excess of 2 per family unit if such units meet sound standards of livability as 3- and 4-bedroom units. The maximum maturity for mortgages insured under this section was limited to 30 years.

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The Housing Act of 1954 (Public Law 560, 83d Cong.) requires that each dwelling covered by a mortgage insured under this section after the effective date of the act be held for rental for a period of not less than 3 years after the dwelling is made available for initial occupancy. This act also requires the mortgagor to certify that the approved percentage of actual cost equaled or exceeded the proceeds of the mortgage loan or the amount by which the proceeds exceeded such approved percentage and to apply the amount of such excess to the reduction of the mortgage.

History of title I

Title I was enacted in 1934 as a part of the original National Housing Act (Public Law 479, 79th Cong.). This was a depression measure aimed at helping solve the widespread unemployment in the construction industry. Section 2 provided for insurance of lending institutions against losses up to 20 percent of the aggregate amount of advances made for the purpose of financing alterations, improvements, and repairs upon real property. The individual loans could not exceed $2,000.

In 1936 section 2 was amended to provide that the amount of insurance to be granted to a financial institution was reduced from 20 percent of the total amount of loans to 10 percent thereof (Public Law 486, 74th Cong.).

The National Housing Act Amendments of 1938 (Public Law 424, 75th Cong.) provided for the expansion of title I, section 2. The maximum amount of individual loans for financing repairs, alterations, and improvements on existing structures was increased to $10,000. In addition, provision was made for loans up to $2,500 for financing the building of new structures.

In 1939 catastrophe loans were included as 1 of 3 classes of loans insurable under section 2 (Public Law 111, 76th Cong.). The other two classes were loans for alterations or repairs and loans for building new structures. The amount of each individual loan in any of the 3 classes could not exceed $2,500 or have a maturity in excess of 3 years and 32 days.

One new feature of the law was the fixing of a premium charge of not to exceed three-fourths of 1 percent per annum of the original amount of the loan payable by the financial institution for insurance under this title.

Numerous minor changes were made in the program during the war years, but the next major amendments came in 1948. The National Housing Act of 1948 (Public Law 901, 80th Cong.) increased the maximum limit on loans for new construction from $3,000 to $4,500. A new program for loans for the alteration, repair, improvement, or conversion of an existing structure to be used as an apartment or a dwelling for two or more families was included. These loans could not exceed $10,000 and had a maturity of not more than 7 years and 32 days.

The Housing Act of 1950 (Public Law 475, 81st Cong.) reduced the maximum loans for new construction from $4,500 to $3,000 and loans for new residential construction were limited to a maturity of 3 years and 32 days.

The revelation of abuses in the operations of the home repair and improvement program led to the enactment of safeguarding provisions

in the Housing Act of 1954 (Public Law 560, 83d Cong.). These amendments were:

1. A lender covered by title I insurance was placed in the position of a coinsurer by limiting his reimbursement to 90 percent of the loss on any individual loan. Since the lender must absorb 10 percent of the loss on each loan, it will be in the lender's interest to conduct more careful lending operations and thus help prevent abuses in the home repair and improvement program.

2. In order to be eligible as a lender under title I, the lending institution must either (*a*) be subject to inspection and supervision of a governmental agency and found by the FHA Commissioner to be qualified by experience or facilities to take part in the title I program; or (*b*) be approved by the Commissioner on the basis of the institution's credit and experience or facilities to make and service such loans.

3. Only home improvements which substantially protect or improve the basic livability or utility of properties are eligible for insurance. The FHA Commissioner is directed to declare ineligible from time to time items which do not meet this standard or are especially subject to selling abuses.

4. The use of title I loans on new houses is prohibited until after they have been occupied for at least 6 months. The purpose of this provision is to prevent the proceeds of a title I loan from being used as part of the downpayment for the purchase of a new house.

5. Multiple loans granted under title I on the same structure are prohibited from exceeding in the aggregate the dollar limit set forth by statute for that particular type of loan.

History of slum clearance

Title I of the Housing Act of 1949 (Public Law 171, 81st Cong., approved July 15, 1949) authorized the Administrator of the Housing and Home Finance Agency to provide assistance, in the form of capital grants and loans, to localities for slum clearance and urban redevelopment. The capital-grant contracts authorized in title I, aggregating $500 million, were for the purpose of defraying up to two-thirds of the net cost to localities of making project land available at fair value for approved new uses.

The law authorized borrowings by the Administrator from the Treasury, aggregating $1 billion, which can be used for short-term advances to finance the selection of project sites and the preparation of plans for specific project development operations; temporary loans for the acquisition, clearance, and preparation of land for reuse; special loans to finance construction of public buildings and facilities; and long-term loans to refinance the local investment in project land which is leased rather than sold. Not more than 10 percent of the funds either in the form of loans or grants may be expended in any one State, except that contracts for capital grants aggregating not more than an additional $35 million of the $500 million grant authorization may be approved in States where more than two-thirds of the amount permitted under the 10-percent limitation has been obligated.

The Housing Act of 1954 (Public Law 560, 83d Cong.) enlarged the scope of undertakings under this program and provided for its coordination with other Agency programs specifically designed to assist localities in urban renewal.

PART III. RESPONSIBILITIES UNDER THE HOUSING PROGRAM

The housing program, both short term for the postwar era, and long term for the general good of the Nation, involves a farsighted legislative program by the Congress, enlightened and competent administration of the law by the administrative agency assigned that responsibility, and a sincere effort by the building industry to fulfill its economic responsibilities.

It is not difficult for a congressional committee to absolve itself of any fault and place the entire blame upon others. But there is no occasion for the Congress to accept responsibility which rightly belongs elsewhere. Perhaps the Congress was derelict in not sooner making a full inquiry into the administration of this program. The facts now available, however, show that some officials of FHA and some spokesmen of the building industry misled and deceived the Congress as to the administration of the act. It appears now that what they told this committee did not and could not happen was in fact quite routine. We inquire now as to how each of the responsible bodies discharged its responsibility.

Section A. Congressional Responsibility

The Congress provided in section 608 that the FHA Commissioner could require the mortgagor—

> to be regulated or restricted as to rents * * * capital structure, rate of return, and method of operation.

The Commissioner was also authorized to acquire $100 of stock in mortgagor corporations for the purpose of enforcing his regulations or restrictions.

Pursuant to this statutory authorization FHA established a "Model Form of Certificate of Incorporation," which every section 608 corporation was obligated to use (Housing Act hearings, April 1954, p. 1971). This certificate of incorporation provided for $100 of preferred stock to be owned by the FHA Commissioner and that—

> no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage insured by the Federal Housing Commissioner have been paid.

These provisions required the approval of the FHA Commissioner of windfall distributions, a fact wholly ignored in the administration of the act. FHA officials testified before this committee that the actual costs and the amount of the "windfall profits" distributed to these sponsors were available to them in the annual reports which were required to be filed with FHA. But Burton C. Bovard, former FHA General Counsel, testified that no one in FHA read the annual reports.

A most significant congressional act to have prevented these abuses was the provision enacted in June 1934, found in section 1010, title 18, United States Code, making it a criminal offense to file false state-

ments in connection with obtaining a loan or advance of credit insured by the FHA. That section is in part:

> Whoever, * * * with the intent that such loan or advance of credit shall be offered to or accepted by the Federal Housing Administration for insurance, * * * or for the purpose of influencing in any way the action of such Administration, makes, passes, utters, or publishes any statement, knowing the same to be false, * * * or willfully overvalues any security, asset, or income, shall be fined not more than $5,000 or imprisoned not more than two years, or both.

There was already in the Criminal Code, section 1001, title 18, enacted in 1909, a statute making it a crime to make a false statement to any Government agency. Therefore the enactment of section 1010 expresses a congressional awareness of the specific dangers involved in the housing program to be administered by FHA.

In 1935 an agreement was reached between FHA and the Department of Justice that the FBI would turn over to FHA all investigations of violations of section 1010. The FHA was given exclusive jurisdiction to police all cases of fraud and misrepresentation in connection with its operations. That arrangement was abolished on April 12, 1954, because of the failure of FHA to adequately investigate and initiate prosecutions under section 1010 for the filing of false statements with FHA. In the meantime FHA ignored this criminal statute and all but read it out of the law.

Not only did FHA fail to actively prosecute the numerous cases of misrepresentation and fraud contained in the section 608 applications, but it effectively prevented the FBI from investigating, and the Department of Justice from prosecuting, those cases under section 1010. The most important feature of this neglect of duty is that a majority of these violations occurred prior to 1950 and the statute of limitations appears to now bar successful prosecution. The committee is pleased to know that the FBI has again assumed jurisdiction over violations of section 1010 and that the Housing and Home Finance Agency has established a compliance division to prevent a recurrence of these past derelictions of duty.

As early as 1947 this committee was concerned by the fact that in some cases the FHA mortgage insurance on section 608 projects represented more than 90 percent of the actual cost (S. Rept. No. 772, 80th Cong.). The committee was also concerned that FHA was estimating costs on the basis of the costs of the average builder rather than on the costs of the more efficient builders. There was no desire to subsidize the less efficient builders.

Realizing the danger of financing unnecessary and artificial costs, the committee reported, and the Congress adopted, an amendment to section 608, directing the FHA Commissioner, in estimating necessary current costs to—

> use every feasible means to assure that such estimates will approximate as closely as possible the *actual costs* of *efficient building operations.*

This amendment became Public Law 394, 80th Congress, December 27, 1947.

While such a standard for estimating costs should have been adopted by FHA on its own at the beginning of the program, it even completely ignored this congressional mandate. The record discloses no action by FHA to make this amendment effective other than a letter sent by the Commissioner to State directors and chief underwriters which quoted the amendment and added:

* * * Therefore, you are directed to take such steps as may be appropriate to make certain that necessary current cost estimates do not reflect costs of inefficient building operations * * * (Housing Act hearings, April 1954, p. 1967).

If FHA had adopted the standard required by the 1947 amendment the "windfall profits," which reached their peak in 1949, 1950, and 1951, could not have occurred in anything like the volume we have seen.

Most, if not virtually all, frauds and irregularities disclosed by these hearings could not occur if FHA had: (1) Required truthful statements by builders in their applications through the criminal prosecution of those who failed to do so; (2) made realistic estimates of costs based on the actual costs of efficient building operations; and (3) used the corporate charter provisions authorized by the statute to check on the activities of builders following the issuance of the FHA commitment.

Notwithstanding the repeated assurances by builders and FHA Administrators, Congress should have sooner looked into the repeated rumor of irregularities in the section 608 program. The investigative power and responsibility of the Congress should be diligently utilized to permit the Congress to know how its laws are being administered. The Congress should not have relied on the misstatements to it by some builders and some FHA officials.

Section B. Administrative Responsibility of FHA

It has been frequently said that the best law the mind of man is capable of drafting will not work if incompetently and improperly administered; and that the worst law of the Congress will not result in inequities if properly and competently administered.

Some FHA employees administered the National Housing Act in a neglectful, incompetent, and dishonest manner, in striking contrast to the high standard of service and integrity this Government is generally accustomed to receiving from its public servants.

The general attitude of FHA seems to have been that it was an agency for the builders and for their benefit. While deeply concerned with inducing builders to construct more projects, FHA appears to have been unconcerned in maintaining the standards of integrity and competence required of Government agencies in the public interest.

INTEGRITY OF FHA PERSONNEL

Thousands of people were employed by FHA and we do not mean to infer that all, or any great percentage, of them were dishonest. At the same time we do not believe that the incidents discussed below are isolated cases or that our investigation uncovered anywhere near all cases of such irregularities. It is still difficult to believe that a man like Clyde L. Powell could head a multi-billion dollar rental housing program for so many years.

Clyde L. Powell, former FHA Assistant Commissioner for Multifamily Housing was employed by FHA in 1934 and was in charge of the section 608 program from its inception in 1942 through its termination in 1950.

FHA General Order No. 4 issued in 1947 gave Powell authority to issue commitments, increase, modify or extend commitments, approve change orders during constructions and otherwise supervise

insurance contracts not only under section 608 but also under all other multifamily rental programs. Powell's record, as shown by this committee's hearings, discloses maladministration and dishonesty in Government, at its worst. No program could be expected to have been honestly and efficiently administered while headed by a man such as Powell.

In his application for employment by FHA, Powell categorically denied that he had ever been "found guilty by a court of any crime, either misdemeanor or felony."

Powell's arrest record, long antedating his employment by FHA, was furnished to this committee by the Federal Bureau of Investigation. The Federal Bureau of Investigation report is printed in the appendix (p. 127).

That arrest record had been referred to the Civil Service Commission by the FBI on two occasions—August 14, 1941, and January 10, 1948—in connection with routine loyalty checks. The Civil Service Commission as a matter of practice referred such records to FHA. However, those arrest records cannot be found in the FHA files. Who removed these reports and who thereby covered up for Clyde Powell has never been disclosed by our investigation.

At the preliminary hearing held in April, Powell was asked, "How long have you been with FHA?" He declined to answer "upon my constitutional protection against being compelled to be a witness against myself." His attorney advised the committee that he would refuse to answer, on the stated ground, any question "Regardless of whatever nature" that might be asked of him.

In June, Powell was called at the opening of the committee's formal hearings. He was asked questions concerning the processing of section 608 applications, concerning his prior criminal record, and about his dealings with certain identified builders. To these questions he again invoked the privilege of the fifth amendment.

At the conclusion of the hearings in October, Powell was again called before the committee. He was then asked about large bank deposits he made in excess of his Government salary. He again refused to answer on the ground of his privilege against self-incrimination.

Subsequently, Powell was found guilty of criminal contempt by the United States District Court for the District of Columbia for refusing to give information to a grand jury, investigating the FHA scandals, after he had been directed to do so by the court.

One consequence of Powell's refusal to testify is that the builders who "dealt" with him have had the security of knowing that the Government would not learn from him of their illegal operations.

The records of the Riggs National Bank, where Powell maintained a checking account, show that in the period from January 1, 1945, to April 30, 1954, Powell made deposits of $218,330.89, of which deposits $101,220.10 was in currency. During this period his net Government salary, including reimbursement for travel expenses was $80,265.49. Those deposits are $138,365.53 more than he had earned. His Federal income-tax returns for those years disclose no income whatever other than his Government salary. Financial statements given the Riggs National Bank in connection with loans he made during the early part of that period showed no substantial assets.

Powell also maintained safe-deposit boxes at the Wardman Park Hotel, where he lived, and at the Riggs National Bank. The hotel did

not record his entries into that box; but the records at the bank show he frequently entered that box, often 3 or 4 times a month. Significantly, he discontinued depositing cash in his bank account in January 1950, and on July 18, 1950, he rented a larger safe-deposit box at the bank, just double the size of the one he previously occupied. The record also shows that he visited this safe-deposit box on the day after the President disclosed the existence of the housing scandal (April 13, 1954).

Powell otherwise dealt in large sums of money. In December 1953, he purchased a lot for $12,000 in what perhaps is the most exclusive section of Washington. He paid $11,000 of that purchase price by cashier's checks, of the Riggs Bank, purchased the same day that he made a visit to his safe-deposit box. He paid $1,500 to a builder to draw plans for a house to cost $56,500. Powell then lived in a hotel and presumably would also have to furnish and equip his new house. This project, including the construction, furnishing, and equipping of the house, appeared to involve commitments approaching $100,000. His Government salary was less than $12,000 a year, before taxes.

Powell appears to have been an exceptionally heavy gambler, particularly on horseraces. Several witnesses testified to his frequent visits to racetracks. A former "bookmaker" testified that during a period of 9 months in 1940 and 1941 Powell made horserace bets with him averaging $100 to $120 a day. One day in 1941 Powell lost $1,500 on 1 day's races. He did not pay his loss and the bookie stopped calling on him.

Notes of Powell in the amount of $8,900 were deposited to the account of John "Black Jack" Keleher during the period from May 27, 1942, through August 13, 1946. Keleher refused to answer questions about his business activities during this period on the ground that such answers might tend to incriminate him. It is common knowledge that Keleher was a prominent "bookmaker" in Washington during that period of time. During a lengthy examination Keleher would testify only that he had no real-estate business with Powell.

On June 2, 1948, Powell purchased a cashier's check from the Riggs National Bank for $8,650 payable to Rocco De Grazia. He paid the bank for this check in currency of $1,000 and $500 denominations. De Grazia is reputed to be the owner of the Casa Madrid in Melrose Park, Ill., a nightclub and gambling house. De Grazia could not be located by committee investigators and Mrs. De Grazia availed herself of the fifth amendment when asked pertinent questions.

On August 20, 1950, Powell lost $5,000 "shooting craps" at the Dunes Club in Virginia Beach, Va. Accompanied by W. Taylor Johnson, a Norfolk realtor, who was his host, and Frederick Van Patten, former FHA zone commissioner, and then Johnson's partner, Powell gambled at the Dunes Club from shortly after midnight that day until between 6 to 8 o'clock the following morning. The gambling was preceded by a luncheon and a dinner the previous day, celebrating the completion of a section 608 project. Throughout the festivities there was considerable drinking. Powell entered the gambling house with a roll of bills, said by Van Patten to contain at least $2,000.

Johnson subsequently gave Powell $3,000 in cash to compromise his losses with the owners of the Dunes Club. Johnson, who had

interests in 5 section 608 projects, charged this $3,000 as a financing expense of his Mayflower Apartments project.

The committee heard almost countless rumors of irregular financial transactions with Powell. In most cases, it was impossible to obtain evidence either to corroborate or to disprove the story. The other party to the transaction would, of course, be just as guilty as Powell in any such dealings.

Testimony of Nathan Manilow, a Chicago builder, further related to Powell's transactions. A $7,500 draft deposited in Powell's account at the Riggs bank was traced to a Chicago bank and then to Manilow.

Manilow owns half the common stock of American Community Builders, the remainder being owned by Philip Klutznick, former Federal Public Housing Administrator. Manilow testified that he gave that stock to Klutznick and that it is now worth about $2.5 million.

American Community Builders received $58 million in FHA mortgage-insurance commitments for projects in Park Forest, Ill. Included in this total were 9 section 608 projects with mortgages of $27.8 million. During the construction of these projects Powell did several things for the benefit of these sponsors, including his approval of an increase in the mortgage commitment of $590,000.

Manilow testified that in March 1948, the Illinois FHA State director, Edward J. Kelly, telephoned him to say that Powell "was in a difficult situation" and wanted Manilow to lend him $7,500. Manilow made the loan on March 9, 1948. Prior to that date, Mr. Manilow had requested permission from FHA to collect 2 months' rent in advance on his leases and to invest this money. On March 24, 1948, Edward J. Kelly recommended to Powell that the request be granted and Powell did so on that date.

Manilow testified that $2,000 of the loan was repaid to him by check in December 1948. He claimed that Powell repaid the balance of $5,500 in currency sometime between December 1948 and March 1949. He said there were no witnesses to the payment, no evidence that it was paid, and that he merely put the currency in his pocket and spent it. However, in his 1949 income-tax return filed in March 1950, Manilow claimed this $5,500 as a bad debt. He listed the debtor merely as "C. Powell." In 1952 an internal revenue examiner disallowed this $5,500 as a deduction, in a routine audit, because there was no proof that Manilow had ever attempted to collect it.

Even more serious was the testimony of Albert J. Cassel. Cassel, an architect and former associate professor in architecture at Howard University, was one of the sponsors of Mayfair Mansions, a section 608 project in Washington, D. C. In December 1946, when this project was nearing completion, an additional FHA commitment of $709,000 was obtained to pay off preferred stock held by contractors in connection with prior debts. Cassel testified that he did not know who obtained the increased commitment but that he did not. Cassel testified that when he went to Powell to pick up the commitment, Powell demanded $10,000 for his services before he would sign the authorization. Cassel paid the $10,000 in currency and received the additional $709,000 commitment.

Other facts point to a direct connection between Powell and sponsors of section 608 corporations that made "windfall profits." Powell's appointment books show frequent visits by many such sponsors to

his office. Telephone company records show many phone calls between Powell, both at his office and at his home, and many of those who made "windfall profits." The records of some of these same sponsors also showed large expenditures in cash which they could not explain.

The sordid story of Clyde L. Powell was one of the principal reasons that an investigation of the FHA was necessary. The complete scope of Powell's activities during his 20 years will probably never become known, especially if the one man who knows the answers persists in his refusal to talk.

Although no other employees of the FHA are known to have engaged in illegal activities on the scale of those by Powell, there are many other cases of FHA personnel receiving gratuities from builders, accepting part-time employment from builders, and engaging in other unethical practices.

Thomas Grace is an outstanding case involving "conflicts of interests." Thomas Grace was New York State FHA director from August 8, 1935, to August 1, 1952. Prior to his employment by FHA he was a partner, with his brothers, in the law firm of Grace & Grace. He remained a partner in the law firm after becoming State director. Grace & Grace, or his brother George one of the partners, were connected with 64 FHA rental housing projects processed in the New York office while Thomas Grace was State director. These 64 projects involved FHA mortgage commitments of $84,771,030. George T. Grace, or the firm, received $400,000 in connection with FHA matters, including $291,000 in fees.

Thomas Grace maintained that he was an "inactive" partner in the firm, but his name appeared on the stationery, on the building registry, and on the door of the law firm's office. Moreover, Thomas Grace withdrew $38,758 from the firm's account and was paid $8,850 by his brother George in the years 1946 through 1951. In at least 2 years the law firm filed a partnership tax return, showing Thomas Grace as receiving 25 percent of the firm's earnings.

The testimony concerning the Warren Gardens project may give the reason George T. Grace's services were so valuable. The original application filed in May 1949, asked for an FHA commitment for $325,000 to build a section 608 project. In almost 6 months the application had not been acted upon. The sponsor was advised by friends to change lawyers and to hire George T. Grace. He did so and in less than 3 months an amended application for $485,000 was approved.

John William Salmon, employed by the FHA in November 1934 and put on annual leave in August 1954, was chief appraiser of the Los Angeles office. In that position he was responsible for the appraisals on all FHA projects including those under section 608. He and his wife Tress received from builders doing business with FHA at least $25,300 in cash, a Ford automobile, and a home purchased at a discount price. Some payments were said to be for services of Mrs. Salmon.

Arthur B. Weber and Richard S. Diller were particularly generous to the Salmons. Weber and Diller built three section 608 projects—Baldwin Gardens, Wilshire-La Cienega, and Monte Bello Gardens. The Government-insured mortgages on these projects was approximately $5 million, their windfall was $417,000 and, of course, they still owned the properties.

Their biggest windfall was $277,154 on the Baldwin Gardens' $2 million mortgage. Since the law provided for mortgages not

exceeding 90 percent of estimated costs, the FHA estimate was off almost 30 percent. Salmon signed the project analysis on Baldwin Gardens as chief valuator.

In October 1949 the Salmons purchased a home from Diller-Weber Co. for $10,000. The house next door, virtually identical, was sold for $15,500 at about the same time to a non-FHA employee.

Weber and Diller were also connected with gratuities to two other FHA employees—Maurice Henry Golden and Kenneth F. Mitchell.

Maurice H. Golden was employed by FHA from 1938 to 1954 and was assistant chief construction examiner in the Los Angeles office. In 1949 Weber, Diller, and a number of other builders collected an $11,000 hospital fund of which $7,000 was spent on hospital bills for Golden's daughter. The remaining $4,000 was put in his personal bank account and in part used to buy a new automobile.

Kenneth Mitchell was chief land planning consultant in the FHA Los Angeles and Long Beach offices. In June 1949 Diller-Weber Co. sold him a home for $11,400 in the same subdivision in which Salmon had purchased. Four months earlier the house next door on one side had sold for $16,300 and 2 months later the house next door on the other side was sold for $16,600. Other houses on the same street sold for prices ranging from $15,250 to $16,600.

Throughout the country it appears to have been the established custom for builders to give Christmas presents to FHA personnel. It was not infrequent for builders to give parties to which FHA people were invited. In New Orleans parties were given regularly by builders in connection with the closing of section 608 mortgage commitments. Five or six top officials of the New Orleans FHA office were generally in attendance at such parties with their wives. In 1948 Shelby Construction Co. gave a party at the Roosevelt Hotel on closing the FHA commitment on the Parkchester project and in 1949 it gave a party at the Beverly Club in connection with the closing on Claiborne Towers. Shelby also gave fishing trips for FHA people. Its financial success in FHA projects indicates these expenses were a good investment. One official in the New Orleans office with a good memory gave a long list of parties, fishing trips, and Christmas presents he had received from builders. A New Jersey official provided a long list of gift certificates he had received from builders.

William V. Yates, chief underwriter at the Jackson, Miss., FHA office, received automobiles from Henry F. Sadler, a builder of 2 section 608 projects who also had an automobile agency. In 1951, Yates made an even trade with Sadler of a 1949 Pontiac for a 1951 Pontiac. In 1953, he again made an even trade of his 1951 Pontiac for a 1953 Pontiac. In that transaction Yates made out a check for $1,200 to the order of Sadler. Sadler endorsed the check but gave it back to Yates who then deposited the check in his own account. Sadler received no money on the trade.

There were many instances in which FHA employees were hired by builders to work on plans that were to be submitted to FHA for approval. FHA employees, in their official capacity, have approved plans that they themselves had drafted for builders.

Joe E. Crawford was a construction examiner in the Denver FHA office from 1943 to 1951. He was hired in 1950 by C. L. Whitchurch and Otto Zurchin to help them on plans which were to be submitted to FHA for approval. Whitchurch testified that having Crawford

draft the plans "greased the wheels" since Crawford knew all the FHA requirements. There were several transactions between Whitchurch and Crawford, but the testimony was conflicting as to the total amount Crawford received.

At least two other builders paid Crawford for help on plans and there was testimony that Crawford approached Forrest Ross, a builder, with the suggestion that Ross hire him to draw his plans, Crawford indicating that his services might get Ross a better break from the FHA. Ross did not avail himself of Crawford's services.

Whitchurch also paid Neal Williams, in the architectural section of the Denver FHA office, $1,500 for work on a model home for the Denver Home Show.

Horace J. Moses was employed by FHA from 1939 to September 1954 as a construction examiner in the Los Angeles office. In 1949 and 1950 he received $9,200 from T. A. Newcomb, who represented builders of section 608 projects processed in the Los Angeles office. In 1950 Moses was paid $1,600 by Curtis Chambers, an architect, for FHA builders.

William D. Sorgatz was chief architect in the Chicago FHA office from 1938 until August 1954. Sorgatz testified to receiving approximately $10,000 in connection with architectural work on plans that were later processed in his office.

Charles Elliot was an assistant FHA State director in Oregon from 1946 to 1949. He testified to receiving approximately $3,000, through an associate in his law office, for reviewing contracts for an FHA builder, and to receiving a commission of approximately $4,000 on the sale of a plot of land on which there was later built an FHA project.

Andrew Frost had been employed by FHA from September 1934, to June 1954 at which time he was assistant New Mexico State director. Frost was questioned before the committee about fishing trips given by builders, gambling winnings with builders, girl parties and other gratuities from builders. To each question Frost availed himself of the constitutional privilege against self-incrimination.

Fred W. Knecht and *Harry L. Colton* were respectively construction cost examiner and chief underwriter in the Grand Rapids, Mich., FHA office. They were also partners in an architectural firm which drafted plans later submitted to FHA for approval. On at least one occasion they induced an architect, who had not drafted the plans, to sign their plans so that they could, as FHA officials, approve the plans. Knecht and Colton received over $20,000 from their architectural firm while employed by FHA.

Joyce A. Schnackenberg was FHA State director at Grand Rapids. His brother, Rex, and Fay West were partners in several building companies which received FHA commitments from the FHA Grand Rapids office. Schnackenberg induced two FHA employees to do accounting and secretarial work for those companies. There was evidence that he received funds from those companies. When asked the relationship between Fay West and himself, Schnackenberg availed himself of the privilege against self-incrimination.

Hugh Askew indicates a *different* and *unrelated* aspect of the integrity of FHA employees in his collection of political contributions from FHA employees. Askew was employed by the FHA in 1934 and,

when he resigned on March 1, 1954, was Assistant Commissioner in charge of field operations.

Askew was the FHA Oklahoma State director from May 1, 1946, to July 1, 1947. Oklahoma was then divided into two districts and until July 1, 1952, he was district director for the district with headquarters in Oklahoma City. With the help of John F. Pratt, Jr., assistant director, Askew sold tickets to the annual Jackson Day dinners to FHA employees in that FHA office on behalf of the Democratic Central Committee. In files in his office were lists of those employees who had made contributions as well as those who had not. Askew could give no reason for listing those noncontributors or for recording the reason for their refusals, such as putting down opposite one name, "Don't owe Dem anything."

Askew admitted giving sales talks to employees to make such contributions, which he considered comparable to raising funds for the Red Cross, March of Dimes, and the Shrine. This conduct appears to be inconsistent with the purposes of the Hatch Act.

Many honest FHA employees appear to have been aware of the prevailing shady practices, but felt they could do nothing about it. Some felt they had to keep quiet to keep their jobs. There were, however, some courageous employees who refused to go along with improper practices and preferred to resign in protest. William F. Byrne and Howard B. Jarrell are two employees who stood by their principles and were forced to leave their jobs.

William F. Byrne was employed by the FHA in 1938. When he resigned on March 1, 1947, he was chief mortgage-credit examiner of the Chicago office. Byrne had disapproved the credit responsibility of Axel Lonquist, sponsor of the Frank-Lon Homes, Inc., project, on the basis of insufficient working capital. Byrne thereupon received a memorandum from his immediate superior, Carl A. Jackson, chief underwriter, that in part states:

> I therefore direct that you process the above cases for firm commitments, and sign the mortgage-credit reports for the chief underwriter. I will appreciate your prompt attention to this matter so that commitments may be issued promptly. * * *

Byrne refused to comply with the directive and he resigned. The application was approved, but the sponsor did have financial difficulties and was not able to himself complete the project.

Howard R. Jarrell was chief underwriter in the Oklahoma City FHA office from November 1945 until February 1947. In December 1945 Zone Commissioner Frederick A. Van Patten told Jarrell that he was too "tight" in his work and that he must raise cost estimates in order to cultivate good public relations with builders and mortgagees. Jarrell objected to doing so without written instructions, but Van Patten refused to put his request in writing.

Jarrell also testified that as chief underwriter he had authority to raise OPA ceiling sales prices on homes by 5 percent if in his discretion conditions warranted it. Hugh Askew directed him to add this 5 percent in all cases, but Jarrell refused.

Jarrell's testimony further indicates that the measure of success in the Oklahoma City office was the volume of business done with the builders and that there was a great relaxation of the requirements and regulations. The constant pressure and demands for variances in the interpretation of underwriting instructions so impaired Jarrell's

health that his physician advised him to resign. Jarrell went on sick leave without pay in February 1947 and finally resigned in November 1947. He had since returned to FHA.

FHA NONFEASANCE

Burton C. Bovard, FHA General Counsel from 1940 through April 1954, in his testimony before this committee, helped materially to put in proper perspective FHA's administration of the housing program. Bovard was employed by FHA in 1934 as an administrative assistant. Shortly thereafter he became an attorney in the Legal Division, then was made Assistant General Counsel, and in 1940 was appointed General Counsel. Bovard was legal adviser for a $34 billion housing and home-repair program. The testimony shows that he is an honest man and no contrary inference is here intended. His testimony (at our June hearing, but not at the earlier hearing in April) was frank and not evasive. Nevertheless he exhibited an inability to cope with the important problems raised under the National Housing Act and its administration.

The charter of every section 608 corporation, the forms for which were prepared under the supervision of the FHA General Counsel, prohibited the payment of dividends, except out of earnings, without the consent of the FHA Commissioner. This safeguard was adopted following express statutory authorization. Had it been followed the windfall frauds could not have happened.

Bovard was asked in the public hearings:

> How all these corporations could distribute these windfall dividends, without the consent of the Federal Housing Commissioner, when the articles of incorporation and the law required the Housing Commissioner's consent to the payment of those dividends?

FHA's General Counsel for 14 years replied:

> It would be violating the charter if they did it, I would think.

Bovard acknowledged that FHA had the power to and did require these corporations to file annual audits with FHA. He acknowledged that most of the corporations did so and that "very likely" these audits disclosed the distributions of windfall dividends. Our examination reveals that they in fact did so. Bovard testified that he knew nothing about the audit reports or the dividend distributions. He did not recall any of the Commissioners ever asking for his opinion as to whether they could permit these dividends. When asked if he knew that these dividends were being distributed, he replied, "I did not." When asked if they kept that fact from him, he replied, "they probably didn't know it themselves." But when he was reminded that they could not help but know that fact if they had read the audit reports, he replied, "Yes; but they didn't read the audit reports" (investigation hearings, June 1954, p. 294).

Bovard was then asked whether he would have advised against it, if Powell had asked him for an opinion as to whether these dividends could properly be declared. He replied:

> Why of course. We would have advised against any violation of the charter. * * * I know, however, that dividends—I think there is a requirement in there—that dividends can only be paid out of earnings (investigation hearings June 1954, pp. 294–295).

The files of FHA today contain literally thousands of audit reports submitted by sponsors of section 608 corporations. The "filing" stamps on these reports shows that they were filed annually from the inception of each project. The reports in most of the cases in which there have been windfall distributions clearly disclose the payment of those dividends. A failure to have known that such distributions were unlawfully taking place could only have resulted from a failure to have even perused those financial statements.

As General Counsel, Bovard was responsible for the investigative staff of FHA. He admitted that reports of gambling by Powell had come to his attention, and that he failed to ask the FBI to investigate these charges, although he conceded that it was the function of the FBI to investigate charges of irregularities against Government officials. He testified, with respect to those charges against Powell, that—

> if it was a charge relating to an irregularity, the FHA should investigate for purposes of administrative action, and it is only if the charge indicated a violation of a criminal law, as I understand it, that it would be turned over to [the FBI].

When asked if he did not consider the fact that a man on a relatively modest salary was able to lose large sums of money gambling would indicate a possible violation that the FBI should investigate, he replied, "I don't think that gambling would be a crime." When his attention was again called to the possibility that a crime might be inferred from the fact that Powell had the funds to lose thousands of dollars gambling, Bovard replied, "I don't think that would be a crime either" (investigation hearings, June 1954, p. 280).

There is discussed elsewhere in this report the problems inherent in having virtually encouraged builders to file false estimates in their applications. This resulted from a legal opinion by Bovard that such false statements did not constitute a criminal offense.

This question first arose in 1951, when the United States attorney at New Orleans communicated with the Attorney General, apparently intending criminal prosecution in connection with misstatements in the application on one of the Shelby Construction Co. projects. The Attorney General wrote Bovard with respect to allegedly false statements given in that application concerning architect's fees. On August 14, 1951, Bovard wrote Attorney General J. Howard McGrath a letter which is, in part, as follows:

> Our files indicate that as far as this Administration can determine the requirements of this Administration have been met, or at least we find no evidence of violation of our requirements nor any evidence indicating any fraud against the United States in connection therewith. As you know, the determinations made by this Administration with respect to the maximum insurable mortgage must necessarily be based upon estimates.

At our hearings Bovard was asked whether it would be a criminal offense for a sponsor to estimate architect's fees at 5 percent in his application, "if in advance of filing the application the sponsor knew that his architect's fee was only to be a half of 1 percent." Bovard replied, "I don't think it would be a misrepresentation at all."

On April 30, 1951, Bovard again wrote the Attorney General with respect to a prospective prosecution concerning the Joseph B. Williams, Inc., project in Newberry, S. C. Bovard then wrote that he was informed that the United States attorney proposed prosecution under the "specific" provision of section 1010 (the special provision

against filing false statements with FHA) and that therefore he assumed FHA "would be expected to take some further action in regard to the matter." Bovard advised the Attorney General that no further investigation was necessary because it was clear there had been no criminal offense. His letter is, in part, as follows:

> Any prosecution would appear to be based upon the submission of a false statement for the purpose of influencing the action of the Federal Housing Administration, and on this point it is believed that the following facts in regard to the actions taken by the Administration would be of material significance. The determination made by the FHA as to the maximum insurable mortgage is based upon the FHA estimate of the replacement cost of the building improvements, and such estimate is not influenced by the amount of the contract executed for the construction of the improvements. * * * The fact that the actual construction contract may have been different in amount than the contract presented to this Administration and that the contractor encountered financial difficulties in performance did not, so far as we can determine, have a material effect on the ultimate security provided.

The Attorney General apparently had not asked for Bovard's opinion, but his letter concluded by saying that, while it was not his purpose to discourage prosecution, he felt compelled to point out that it could not be established that any "side agreement" with respect to that project which was not disclosed to FHA, could have any bearing on FHA's determination.

A similar letter was written by Bovard to the Attorney General on one of the Warner-Kanter projects in St. Louis.

The view taken by FHA with respect to the prosecution of persons filing false applications was expressed to this committee, by Warren Olney III, Assistant Attorney General in charge of the Criminal Division, as follows:

> We have had this experience, that we have learned it has been impossible to make criminal cases out of those section 608's because FHA takes the position that even though we can prove that false estimates and false statements have been submitted by the promoters of these projects, FHA said they don't rely on them, and although they admit that they are false and that they are lies, because we don't rely on them we can't make a criminal case * * *. And that, Senator, is why it is impossible for the Department of Justice to prosecute on these section 608 cases, because we cannot prove that the Federal Government was defrauded, in the face of FHA's own statement that they never relied on these false statements, so they are in the position of saying that they weren't deceived or defrauded; they were just giving this stuff away (Housing Act hearings, April 1954, pp. 1616–1617, 1623–1624).

A final act of FHA staff indifference occurred April 12, 1954. The President that day ordered all FHA files impounded. William F. McKenna had been appointed Deputy Housing and Home Finance Administrator to investigate the FHA program. McKenna testified that on April 12 he read the President's order to the Deputy FHA Commissioner Greene in the presence of Howard M. Murphy, FHA Associate General Counsel; that the order required all field directors to be notified that the President had impounded the files; and that Murphy thereupon advised that—

> Mr. Greene was in danger of having to pay for any telegrams he sent out in response to the President's order out of his own pocket, because Mr. Murphy doubted whether the President of the United States had any control over the Federal Housing Administration, except to appoint the Commissioner with the advice and consent of the Senate * * * (investigation hearings, June 1954, p. 4).

FHA had ignored the congressional suggestion for controlling dividends, it had flouted the congressional mandate with respect to

appraisals being based on "actual costs of efficient building operations," it had denied the Attorney General the opportunity to prosecute the filing of false applications, and its Assistant General Counsel questioned the President's authority to impound its files. This is bureaucracy at its worst.

FHA DECEIVED CONGRESS

On July 29, 1949, Franklin D. Richards, FHA Commissioner, and Clyde L. Powell, Assistant Commissioner, testified before this committee. In the light of subsequent information now publicly available, their testimony was certainly misleading. We quote pertinent portions from the transcript:

Senator LONG. I see. This also has down here that there are allowances based on the appraised value of land in use as a rental development, rather than its acquisition cost.

As I understand that, a man is permitted on the amount of the mortgage to estimate what the price of the developed land is rather than the price he actually paid for it. For example, if I go to a section of town where there is a substantial amount of vacant property developed but not where he is, if I could buy that relatively cheap, say $1,000 an acre, and I developed it, I would be entitled to more or less look at the developed cost which might be $5,000 an acre, rather than the cost that I paid for it, I take it.

Mr. RICHARDS. I would like to ask Mr. Powell to tell you about that specifically. But let me say this, of course, that most all land where relatively large projects are developed is what we call normally raw land, and it has to be improved. It costs money to put streets, utilities, sewers, so on and so forth, in there.

So our value is based upon the land ready for use. Will you go into detail on that?

Mr. POWELL. You explained it pretty well there, Mr. Richards. We take the *actual going market price* of the land *in its present state;* and in order for it to be usable in a multifamily rental housing project, it might have to have streets paved on the outside; we might have to bring up a sewer line, water mains, and so forth to permit it to be used.

Senator LONG. To make it ready for use. You would permit that cost in the value of the section 608 project?

Mr. POWELL. Yes.

The testimony shows it was quite routine for FHA to value land at 2, 3, or 4 times, and frequently far more, the actual market price, plus the cost of utilities.

Senator LONG. Of course, that is a point I was getting around. I have never seen a contractor yet who stayed in business over a long period of time and got to be very successful bidding on a job but what if he performs, he usually manages to get that building up in a little less than the estimated cost, and there is a little saving produced there usually. I mean it is a general practice among contractors. Some might run over it.

Mr. RICHARDS. However, we have a large volume of business, as you know, and maintain cost estimators and analysts in each of our offices; and it is their duty and responsibility exclusively to be in the field and check these costs all the time.

Now, as you indicated, a very successful contractor knows how to operate his business on a basis where he does not lose money. The actual cost of construction, including these items that you have mentioned here, vary from builder to builder.

I suppose if you took 10 builders in New Orleans or any other city who would produce exactly the same structure, you would find it would cost each one of them something different. So we try to get what we estimate would be the cost to the *typical builder, not to the very most efficient* or not the poorest builder, but the typical builder.

That testimony was given 2 years after Congress had amended the law to require that estimates be based on the actual costs of "efficient building operations."

Senator LONG. * * * I have a friend who constructed one of these section 608 projects, who told me that he managed to construct his project for 70 percent of the estimated cost. * * *

I will tell you, to begin with, this particular person who made that statement to me, is, in my opinion, one of the most efficient builders I have ever known. The evidence of that is that he has made more money in the building business than any young man I know, and undoubtedly he is extremely efficient.

But do you think that it is possible, even for the most efficient type builder, to actually construct his project at 70 percent of the estimated cost?

Mr. POWELL. No; I do not think so.

Mr. RICHARDS. I do not think so.

Mr. POWELL. I do not see how that is possible, because we are right on top of local construction costs. We get a determination from the Secretary of Labor as to the wages that he must pay for all the mechanics on the job. If he does not violate the statute, he must pay that wage rate.

We estimate the length of time it takes to construct that job, and make an estimate of all the materials that go into it, such as plumbing, heating, plastering, electrical work, and all that. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 or 3 percent. *I do not think it could be physically possible to be off anything like 30 percent.*

* * * * * * *

Senator Long again raised the point of excessive valuations:

Senator LONG. * * * But do you know of any other ways where a man by prudence or by care or by any other manner of handling his project might come below or might further reduce his cost in building one of these projects?

Mr. POWELL. I do not see how he could, unless our local estimate of the cost of the production of the structures would be far in excess of what it would actually cost him to build.

Senator BRICKER. There have been many instances like that, have there not?

Mr. POWELL. Not to my knowledge, sir.

Senator BRICKER. You do not know of any?

Mr. POWELL. No, sir.

Finally Senator Long again asked the question:

Senator LONG. You do not think a man could construct a project then, even if you include his own profit, for 30 percent below what the actual estimated cost of the project was?

* * * * * * *

Mr. POWELL. Well, Senator, if he did, I would say that our office had made a pretty serious error in estimating the cost of the job. It has never been called to our attention, and I do not see how you could miss an estimate of cost on an ordinary housing project of any 30 percent.

This record shows many cases in which actual costs were 30 percent less than the FHA estimates of cost. That testimony occurred July 29, 1949, Powell, apparently willfully, then deceived this committee. On July 1, 1949, Lester H. Thompson, FHA Comptroller, sent Powell a memorandum that the recently filed first annual statement of Elisabeth Apartments, Inc., disclosed a dividend of $550,000 in the first year. The memorandum observes that the charter provides that dividends "can only be paid out of net earnings" and that "the maximum amount permitted by the charter was $35,494.24." This $550,000 dividend was a windfall distribution out of the mortgage proceeds of a $4,467,100 mortgage.

On July 27, 1949, 2 days before testifying before this committee, Powell wrote the President of that corporation:

In reviewing the certified public accountant's audit report covering the above corporation for its fiscal year ended April 30, 1949, we note that dividends in the amount of $550,005 were paid, whereas the net earnings, after making provision for required amortization and deposits to the reserve for replacements of the corporation, aggregated $35,494.24 only. In our opinion, permissible dividends should have been limited to the latter amount.

Subsequently, Powell wrote the corporation approving the dividend payment. The FHA's then General Counsel has testified such dividends were unlawful. Every section 608 corporation was thus limited as to dividends and each was required to file similar annual statements. These statements, still available in FHA files, consistently disclose the payment of the dividends. It is not possible that Powell did not know of the windfall profits when he then testified before this committee.

Section C. Industry Responsibility

The organized home building and financing industries must share with the FHA responsibility for abuses and irregularities under the National Housing Act. While only a relatively few members of the industry were involved in the irregularities, the national associations consistently acted to protect this minority, to the detriment of the honest majority of the industry. The industry consistently misrepresented to the Congress from 1942 through 1950 the existence of wrongdoing and, as a consequence, also denied the Congress the benefit of their expert knowledge.

The industry associations sought to thwart and to minimize the efforts of this committee to investigate housing frauds. Instead of giving us their wholehearted support in ascertaining the facts, and to help clean up a bad situation, these associations instead devoted themselves to justifying the activities of an unscrupulous few.

BUILDING INDUSTRY OPPOSES INVESTIGATION

The *National Association of Home Builders* has publicly impugned the motives for this investigation and has even sought to ridicule this committee. An April 14, 1954, press release of Richard G. Hughes, president of the Home Builders Association, contains these rash statements even before the inquiry had started:

> While I realize there may be some publicity value inherent in investigations, the facts show that the FHA operations currently under question represent far less than 10 percent of the agency's total operations. Let us not let a very small tail wag a very big dog. * * *
>
> The White House readily admits that housing is the main prop of our postwar economy, Hughes pointed out. I hope they won't forget it. * * *
>
> He charged that the circus atmosphere under which the attacks on FHA operations were made gives the public a false impression of FHA, and certainly unjustly puts a black eye on reputable builders everywhere. (Housing Act hearings, April 1954, p. 1464.)

This reference to these hearings as a "circus" may indicate the view of the Home Builders Association, but we do not believe that the American people regard the "performance" as in any way resembling the frivolity of a circus.

Following the lead of its parent organization and not impressed by the previously exposed revelations, Arthur C. Wright, president, Home Builders Institute of Los Angeles, made the following public statement coincident with the committee's hearings in that city last September:

> Arthur C. Wright, president of the Home Builders Institute, spoke out in praise of the Federal agency, and the Nation's home builders to counteract "serious public misunderstandings" that might arise from the hearings being conducted here by a Senate subcommittee. * * *

He declared that both political parties voted for provisions making possible the so-called windfall profits now under investigation in connection with the financing and construction of rental properties, homes, and home improvements. * * *

Consequently, he charged, "a stigma has been placed on the home-building industry and one of the finest units of Federal Government because of the sharp practices of a relatively few rental building contractors." * * *

Let us remember that in our dynamic, growing country, there is still a big job to do and everybody—the public, the Government, and the home-building industry—will suffer if unjust persecution is conducted against those who did things which were sanctioned by law and done under the pressure of the housing shortage emergency (investigation hearings, September 1954, pp. 1597, 1598).

This statement presents the prevailing views of some builders who have testified before this committee. These builders repeatedly tell us that its prosperity is so essential to the prosperity of the whole country that it must be kept operating full scale at all costs. They seem to feel that the Government must subsidize their industry to whatever extent is necessary to accomplish that objective; although they would never admit that it was a subsidy.

These builders have told the committee that the country just will not get rental housing unless builders are free to make a full fair construction "profit" out of the project's mortgage proceeds and still own the property without any substantial permanent investment. They warn us that in their opinion unless such profits are available from the mortgage money rental housing just will not be built. This means a mortgage in excess of 100 percent of their actual costs. And their practice in some cases seems to be to take this profit only on a basis that permits them to avoid paying normal income taxes on what they call their profit. Builders of this point of view are generally unwilling to invest their own capital, other than to make loans to the project after repayment is assured by a Government-guaranteed mortgage. This is a great disappointment to a committee whose members believe so completely in private enterprise. It is also an unwarranted indictment of those builders who have operated within the spirit and letter of the law and who don't share this view.

The *Mortgage Bankers Association's* views closely parallel those of the Home Builders Association. At the outset of this investigation, William A. Clarke, president of the Mortgage Bankers Association, issued a press release which is in part:

* * * The forced resignation of Guy T. O. Hollyday as Commissioner of the Federal Housing Administration is unwise and unjust. In Mr. Hollyday's resignation, the Administration and the entire country have suffered a great loss * * *.

In our opinion, Mr. Hollyday's resignation has been forced, not because of any indifference to abuses of the FHA system, even though that is the announced reason. We wonder whether the real motive behind this summary firing is the fact that Mr. Hollyday is known to have opposed the administration's plan to transfer from the FHA to the Housing and Home Finance Agency the authority and the responsibility placed by the Congress with FHA. * * *

Mr. Hollyday's summary dismissal will be regretted by everyone who knows him, knows what he stands for, and knows what he has endeavored to accomplish for the Administration. It is a blow to good government and to the cause of enlisting intelligent and honest people in the Government * * * (Housing Act hearings, April 1954, p. 1491).

The mortgage bankers did not wait for the facts and impugned false motives to the President for discharging Hollyday. Yet subsequent disclosures revealed that Hollyday permitted Powell to resign, and personally sent him a laudatory letter, with knowledge of at least some of Powell's inequities.

In the course of its own investigation FHA sent a questionnaire to all section 608 sponsors asking for their construction costs. In June 1954 Samuel E. Neel, general counsel, Mortgage Bankers Association of America, wrote to each member of the association suggesting that he not answer the questionnaire. The letter is printed in the hearings at page 3498.

Although he quotes from the charter of every 608 corporation that—

> the corporation shall give specific answers (to FHA) to questions upon which information is desired from time to time relative to the income, assets, * * * and any other information with respect to the corporation or its property which may be requested * * *—

Neel doubted that FHA had the authority to ask for that information.

The letter had its effect on the answers to the FHA questionnaires to section 608 sponsor corporations. A total of 6,438 questionnaires were sent out but only 1,261 were returned completed with the required information.

As in the case of the home builders, the reputable members of the Mortgage Bankers Association are put in the position of protecting those of its members who have been guilty of sharp practices. Why should any honest builder be unwilling to tell his Government the actual cost of his Government-financed project?

CONGRESS WAS MISLED BY THE INDUSTRY

The section 608 multifamily housing program extended over a period of 8 years during which many public hearings were held before this committee on that act. These hearings reveal that Government and housing industry witnesses were unanimous in their praise of this program and concealed from the committee abuses in this program. When witnesses were questioned as to the possibility of unwarranted profits, they promptly assured the committee that there could be no wrongdoing or irregularities in the section 608 program. Unfortunately, the committee and the Congress relied on the integrity, honesty, and judgment of these responsible representatives of the home building and financing industries who testified before this committee.

Rodney M. Lockwood, president of the National Association of Home Builders, testified before the committee on January 17, 1950. Even in 1950, when the knowledge of windfall profits appears to have been widely known in the industry, Lockwood denied that FHA mortgages ever exceed 100 percent of cost. His testimony is in part:

> Senator SPARKMAN. * * * We have had fine cooperation under section 608. Yet, isn't it true that under section 608, many times the amount of money that the Federal Government guaranteed, or insured, or stood for, I don't care what term you apply, represented more than a hundred percent?
>
> Mr. LOCKWOOD. I don't know of a single case of that being true. I think that is one of the most widely circulated bits of misinformation that I have heard talked about in housing for a good many years. The impression seems to be that the builder gets in the form of a loan under section 608 more than the total cost of the project. Believe me, in those that I have participated in that has not been true. I have not actually seen or heard of any in which that was true.
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> * * * * * * *
>
> Senator SPARKMAN. I don't have it before me, but we had numerous specific cases called to our attention, and I believe I am safe in saying this: That some members of our committee have told us that they had been told by the builders themselves that they had gotten more than 100 percent. If I remember correctly, I won't say it positively, but as I remember it Senator Long said he knew of a case where a builder friend of his had gotten 120 percent.

In all fairness, let me say that I am not condemning the builders.

Mr. LOCKWOOD. If I may be facetious, I would like to say that that statement of 120 percent sounds like barroom talk. I can't believe that the FHA would be that lax in its administration. (Hearing on S. 2246, January, 17, 1950, p. 206.)

This investigation has revealed many cases where the mortgage proceeds have exceeded 120 percent of the costs. In fact, there are cases where the mortgage proceeds were 130 percent and 140 percent of the actual costs. The existence of windfall profits was not just "barroom talk" as this housing expert led the committee to believe. The National Association of Home Builders is still maintaining an ostrichlike attitude.

At the same hearings William A. Clarke, who is now president of the Mortgage Bankers Association, testified before this committee that—

I have had a lot of experience with section 608. I have seen none in our area that in my opinion were in excess of the cost. You hear rumors of those things going on and I presume it has gone on in some spots, but it is like, I presume, any other kind of lending agency does, there are mistakes made that are perfectly sound and honest mistakes. As far as I personally am concerned, we have had our hands in a great many section 608's, and I have never seen any portion of them that I thought was out of the way. I have never seen anybody making any killings under section 608. * * * (Hearing on S. 2246, Jan. 18, 1950, p. 296.)

If Mr. Clarke had had a lot of experience in section 608 projects and had "never seen anybody make a killing under section 608," it would appear either that he had not looked very far or had closed his eyes. Mr. Clarke also is apparently still unconcerned about the widespread abuses under section 608.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR, DOUGLAS, AND LEHMAN

While the committee has adopted many of the changes we have suggested in this part of the report, we feel that it still does not make it sufficiently clear that only a relatively few in the industry and in the FHA were guilty of malfeasance, obstruction, or deliberate misrepresentation.

As to the individual industry spokesman, based upon the record, we believe it would be more appropriate to limit the language of the report to questions relating to their judgment and awareness, rather than to raise implications with respect to their honesty and integrity.

PART IV. THE FRAUDS AND FHA MALADMINISTRATION

Other sections of this report deal with specific cases in which FHA improperly administered the Housing Act. Here we point out some of the general abuses of the housing program found by our investigation to have existed.

Section A. Applications for FHA Commitment

The point of beginning for any section 608 commitment was the Application for Mortgage Insurance. We have already discussed the extent to which FHA permitted builders to include untruthful statements in these applications. We now show the extent to which the FHA frauds could not have occurred had honest answers been required to the questions in those applications. The extent to which many builders made no effort to make honest estimates in their applications is shown in the testimony of Herbert DuBois, a Philadelphia lawyer turned builder, who testified that—

> The only thing I can say is this: That the standard procedure in our area, where we were building, the standard procedure with the FHA office was that the builders—and I think practically all of them—I can't make that statement under oath that all of them did—but to the best of my knowledge practically all of them filed their application for the maximum amount of mortgage that was permissible under the act. The reason we did that was because we wouldn't have any actually specific way of knowing what to file for and, furthermore, we were told by the FHA office to file for the maximum and then they would issue their commitment for whatever their cost figures showed, and their appraisal figures showed we were entitled to (investigation hearings, July 1954, p. 955).

When asked, "Are you saying, Mr. DuBois, that your application to FHA was not even intended to reflect your own estimate of cost, but was intended merely to be the maximum permitted by statute?" he replied "that is absolutely correct."

Many builders testified that they did not even read the applications, prepared for them by others, before they were filed.

Joseph J. Brunetti, sponsor of a section 608 project in New Jersey with a $1.2 million windfall, testified that mortgage brokers filled out his applications without consulting him and used their own estimates. When asked if he had ever signed applications in blank, he replied:

> I think that if you say that I signed them in blank, it could have been simultaneously, where they were partially filled, and I took it for granted that they were acquainted with the regulations and I signed them and didn't notice them if they were blank or filled out sometimes (investigation hearings September 1954 p. 3039).

Sidney Sarner, sponsor of another New Jersey project with a $2.5 million windfall replied, "No, sir," when he was asked if he had filed an application for a loan. Then he continued:

> I filed it through a mortgage company, not direct. Here is my understanding of it. I don't know whether you have the same understanding. Certain approved mortgage companies which the FHA recognizes—these companies go out and solicit business and say, "Look, we are connected with a real estate company" or whatever it is. "We will get you a loan." You are a builder and they come

and look for business. "We can get you a loan for so much if you will build such a type of project" (investigation hearings, July 1954, p. 444).

The quoted testimony of Sarner was taken in executive session and made public by direction of this committee after Sarner had availed himself of the privilege against self-incrimination when called to testify at a public hearing. Sarner's testimony would indicate an objective of obtaining a mortgage for as large an amount as possible and building the structure for as small an amount as possible; with but little, if any, relationship between the two. Greater integrity would have accompanied the housing program had builders seeking mortgage commitments been compelled to give *their own best estimate* of their anticipated costs.

The application was a detailed 4-page, legal-size paper, document. On the theory now advanced by FHA it should have been sufficient for the builder merely to have written a letter to FHA advising it of the amount of the mortgage he desired.

In the Parkchester case, involving a windfall of about $2.5 million and which is now in process of foreclosure, the application for mortgage insurance was filed 2 days after the purchase of the land on which the project was built. The land was located on the outskirts of New Orleans and did not have any peculiar characteristics. The seller was himself an astute lawyer turned builder who had successfully sponsored other section 608 projects. The purchase price, in that arm's length transaction, was $232,759 and would seem to be the best estimate of the market value of the property. Yet the application to FHA, filed only 2 days after the purchase of the property, estimated its value at $1,123,000.

The Cafritz application on Parklands Manor valued land at $20,000 an acre which had been purchased for $690 an acre. That valuation was more than six times the valuation placed upon the land a few years earlier by the Internal Revenue Service in connection with a gift of the property by Cafritz. And at the time of the gift Cafritz had stated in his gift-tax return that its value was still only $690 an acre.

Pursuant to the statutory requirement that sponsors show equity equal to 10 percent of the estimated cost, the application had to show the character and extent of the equity to be furnished. In the Shirley-Duke case, which is an example of almost everything done wrong in the section 608 program, the land was shown as a part of the equity to be advanced by the sponsors. The application estimated the value of the land at $508,220 and stated that equity in that amount was thereby being contributed by the proposed stockholders. Testimony before this committee shows, however, that at the time that application was filed the sponsors had merely an option to purchase the land for $178,000. Furthermore, a contract between the sponsors and Investors Diversified Services provided that IDS would finance the acquisition of the land for which it would be reimbursed out of the proceeds of the mortgage. Not only was the land paid for out of the mortgage proceeds, but the agreement with IDS to do so was made before the application was filed. The application estimated the value of the land at three times the market price fixed by the sale and was wholly false to the extent that it indicated that any part of the land was being supplied as equity.

The testimony is further that FHA advised these sponsors that their applications did not show sufficient equity contributions. They

therefore amended the applications to include N. J. Sonnenblick as a sponsor and stated that he would contribute several hundred thousand dollars as equity. Sonnenblick testified that this was all without his knowledge or approval.

The estimated cost of the Shirley-Duke project was $15.3 million. This should have required equity of $1.5 million. Yet the only equity ever advanced by the sponsors was $6,000 (and they immediately put themselves on the payroll at $60,000 a year.)

It is not conceivable that any intelligent FHA employee could or would have issued the Shirley-Duke commitment if the FHA files had contained an application stating the true facts with respect to the proposed financing of that project. Yet FHA has taken the position that the statements in the application were of no concern to it. Ironically these sponsors estimated the cost at a little over $15 million and FHA made substantially the same estimate. The actual cost, including interest on all construction funds advanced, but not including the profits or fees paid to IDS, was a little over $10 million.

Although FHA says that it ignored the figures in the applications, these builders and FHA were each off more than 30 percent in this estimate.

The application for Essex House in Indianapolis, by the Warner-Kanter Co., similarly misstated known facts with respect to the land. Correspondence produced at the hearing shows that from its inception those sponsors planned to have outside builders advance the money for the purchase of the land and receive preferred stock for that advance which would be redeemed out of the proceeds of the mortgage. The land was in fact paid for by issuance of preferred stock which was redeemed out of mortgage proceeds, yet the application showed it as an equity contribution. That application also estimated architect's fees very substantially higher than those provided for in an agreement with the architect made before the application was filed. These statements in the application cannot be said to have been made in good faith when the application was filed. In the final agreement FHA officials were apprised of the facts but did not raise any objection and issued the commitment.

These sponsors were also the subject of correspondence between the Attorney General and Bovard (FHA General Counsel) with respect to a contract between the sponsors and the builders not disclosed to FHA, which was substituted for the contract between them filed with FHA for the construction of a section 608 project in St. Louis. The undisclosed contract was for $100,000 less than the disclosed contract. As previously noted, Bovard advised the Attorney General that criminal action could not be taken.

We are not unmindful of the fact that honest opinions may differ as to the estimated, or the fair market, value of real estate. But it is difficult to understand a valuation 3, 4, and even 5 times or more the purchase price in a recent arms-length transaction between competent businessmen. While FHA valuations were never exactly the same as the builder's estimates, by coincidence they were generally quite close to the estimate of the builder even when that estimate was several times the purchase price.

The misstatement of architects' fees in FHA applications has been widely known for some time. FHA made it known that it would

allow a 5 percent architect's fee in every case no matter what the architect's fee was in fact. Five percent is a normal architect's fee for a normal building. But many FHA projects were of the "garden" type, consisting of a great number of smaller buildings. The Shirley-Duke project includes 200 buildings averaging 11 apartments each. This is similar to the situation in most of the large section 608 projects. The drawings and plans for one building substantially accomplished the drawing of the plans and specifications for all of the buildings in the project. In these circumstances it is understandable that architects would undertake such projects for fees of 1 percent and even one-half of 1 percent. The hearings disclose many cases in which the builder estimated architects' fees at 5 percent although he had previously made a firm contract with an architect at a very substantially lower sum.

These are the principal respects in which builders gave inaccurate or untruthful statements in their FHA applications. On a less frequent basis there are a long list of other misrepresentations made to FHA all *primarily* to meet the statutory requirement that a sponsor furnish 10 percent equity either in property, cash, or services. We think the materiality of the statements contained in these applications is shown by the mere fact that each applicant was careful to make certain that his application met the statutory test for equity capital.

Section B. Appraisals by FHA

Liberality, and perhaps laxity, in FHA appraisals is the other side of the coin to misstatements in the sponsors' applications. We can understand how a sponsor might estimate the value of land at several times the price at which he recently purchased that land from a sane and intelligent seller (when no penalty was imposed for doing so), but it is not as easy to understand the FHA appraiser intelligently reaching approximately the same excessive estimate.

Powell testified before this committee in 1949, accompanied by Bovard and Richards, that it was impossible for FHA cost estimates to be as much as 30 percent off. Nevertheless many of them were off by that much and more. Curt C. Mack, Assistant FHA Commissioner in charge of Underwriting from 1943 through 1954, testified at our public hearings. When he was asked if they ever checked the *actual costs* of these projects to determine the accuracy of their estimates he replied:

> We tried to. The insuring offices, each director was a member of the chartered corporation. In fact, he was a director, and those reports were sent not only to Washington—I believe they went to the Rental Housing Division—they did not go to the underwriters—but they were placed also in the hands of the director of the insuring office which had jurisdiction over the area in which the property was situated. We used those reports largely for purposes of checking operating expenses and the accuracy of them (investigation hearings, October 1954, p. 3487).

Following that response the following questions were asked Mack, to which he gave these answers:

> Question. How did you miss so many times?
> Answer. I can't answer that.
> Question. Were you aware at the time that you were missing?
> Answer. No.
> Question. You say you weren't aware?
> Answer. Not in all of these cases. These so-called windfalls were a shock to me.

Question. You say you were shocked at the disclosures?
Answer. At the extent of the alleged windfalls.

The evidence received during this investigation warrants the conclusion that in its eagerness to satisfy builders who were interested in sponsoring multiunit housing projects, FHA frequently estimated costs at whatever it thought was necessary to satisfy the demands of those builders.

It does not seem possible that FHA cost estimators could, had they conscientiously discharged their responsibilities, been off 30 to 40 percent in so many cases, as has been disclosed by our investigation. It is natural to assume that in the normal course FHA estimates might be high in some cases and low in other cases. But we find builders who sponsored 10, and even up to 25, projects whose estimates were *always* on the high side, and whose estimates averaged as high as 20 percent above actual costs. This is inconsistent with the premise that in the normal process of estimating that the estimator would be a "little" high in some cases and a "little" low in others.

Section C. FHA Sales and Promotion

The Federal Housing Administration apparently considered itself obligated to "sell" the section 608 program. The committee has heard testimony from builders that meetings were called by FHA officials to persuade builders of the great benefits of the section 608 program. Builders were encouraged to inflate their estimates of costs. FHA made it known that an architect's fee of 5 percent would be allowed regardless of what was in fact the architect's fee. Builders were were told that these projects could be constructed with little or none of their own money.

A Los Angeles builder, Arthur B. Weber, told the committee that he was invited to an FHA meeting at which the section 608 program was explained and that he was told that he "should wind up the project without having any investment in it." The extent to which the program was "sold" is shown by its success in the New Orleans area where there was a greater amount of defaulted projects than in any other area in the country. L. J. Dumestre, FHA Louisiana State director from July 1, 1947, to July 30, 1954, gave this explanation of the sales program:

> First, multifamily housing, as such, is not common to the area. Up until the advent of the section 608 program I would say we had practically no apartment houses in New Orleans that were larger than 20 or 25 units. We were urged, and instructed by the Washington office, to sell the section 608 program to builders, to provide badly needed housing. New Orleans and Louisiana, along with the balance of the country, was critically short of rental and sales-type properties. We got out and we did a good selling job. We did too good a selling job because probably we built a little too much. About 3,800 units of rental housing came on the market in New Orleans within a period, I would say, from 18 months to 2 years, and it was just a little more than we could absorb at one time * * * (investigation hearings, September 1954, p. 2016).

Under date of January 8, 1947, Franklin D. Richards, then Assistant FHA Commissioner, sent a memorandum to the directors of all local field offices urging a planned pattern for selling the section 608 program. Prepared speeches were sent to the directors and a detailed program was included. The field directors were told when and how to call the conferences. They were told who to have speak, what each should say, and how long each speech should take. A detailed

follow-up program was given the field offices. This brochure is similar to those frequently sent out in connection with high-powered public-relations programs. The document is included in the printed hearings of the investigation (p. 3681).

An address by Ward E. Cox, former FHA Assistant Commissioner, before the West Coast Builders Association in December 1952, further illustrates the extent of this sales program. Cox there told the builders some of the many ways in which they could make money on cooperative housing projects with "no risk capital or permanent capital investment" and with a return of all funds that might be required to be advanced to the project "before one spade of earth is turned." Cox's speech was in part:

> Upon receipt of the Project Analysis Form and the project mortgage amount * * * the sponsor-builder, of course, sharpens up his pencil and compares his own estimates of costs with FHA's estimate of replacement costs and asks himself, What's in it for me? In the first place, he may own or acquire the land and sell it at a profit to the cooperative or, in the management-type projects, find it advantageous to lease the land for 99 years at a maximum return of 4 percent of FHA's estimate of fair market value. He can obtain a contract to construct on-site improvements to the land and make a profit and where the land is purchased in fee simple by the corporation he may also contract for offsite improvements. He has no risk capital or permanent capital investment in the project. All equity capital is subscribed by the cooperative members. Any front money advanced by him for organization, legal, architectural and other expenses and costs is returned to him or adjusted at initial closing of the loan, if he decides to proceed with the project, and before one spade of earth is turned in construction. Because all occupants of a cooperative project sign up and make required equity payments before construction begins, the builder is not obligated to speculate on sales or occupancy. If the project is a management-type cooperative and the builder is qualified, he may obtain a contract to manage the project following completion.

One apparent result of the overzealous FHA sales program was undue liberality in making estimates and contracts with builders. If the section 608 program would not have worked out satisfactorily under the formulas and provisions established by the Congress, it was the responsibility of FHA to have so advised the Congress. But it was not the function of FHA to revise the statutory limitations according to its own conception of what was required to make the program work according to its measure of success.

Section D. Leasehold Mortgages

FHA permitted builders to obtain FHA insured mortgages on leasehold estates under circumstances that made doing so very profitable for builders. This practice was used extensively in New York and to some extent other areas, including Washington, D. C. An official of the Chicago FHA office, E. Herbert Bonthron, testified that the only two leasehold mortgages on residential property in Chicago were on FHA section 608 projects.

These ground leases were generally for 99 years at a rental based on 4 percent of FHA's valuation of the property. The building constructed on the property, with an FHA guaranteed mortgage, is necessarily security for the ground rent. A default in the ground rent would require the Government either to cure the default or to purchase the land to protect its guaranty of the mortgage on the building. Its failure to do so would permit the owner of the land, usually the section 608 sponsor, to acquire the building free and clear of its

mortgage. To thus protect itself, FHA took an option to purchase the land at the appraised value—frequently several times the cost of the property. These cases put FHA in the position of having the equity owner of the building occupy a security position in the project that came ahead of the FHA insured mortgage.

Because of the Government's financial interest in making certain that there was no default in the ground rent, a mortgage on the land was, in fact, better secured than the FHA-insured mortgage on the building. Accordingly, insurance companies and banks were willing to make conventional mortgages at 80 percent, and even 90 percent, of the FHA appraised value of land thus leased to a section 608 project. These loans were generally made for long periods of years *without* any personal responsibility of the borrower to repay the loan. These leaseholds were so profitable because of FHA generosity in making those appraisals. It appraised land at as much as 5 and 6 times the promoter's cost. In one case, Beach Haven, land costing less than $200,000 was appraised at $1,500,000. In the Glen Oaks Village case the sponsors were able to obtain a mortgage on the land for almost $1.5 million more than they had paid for the land. In the Rockaway Crest project the owner obtained a mortgage on the land for $1 million more than he had paid for the land. These lucrative mortgages were possible only because they were secured by leasehold agreements which the Government could not permit to default. No Federal income taxes were paid on those mortgage proceeds on the theory that they were merely loans and not income even though there was no personal obligation to repay the mortgage.

The Woodner project in Washington was built on a leasehold. Woodner has claimed that his building costs were in excess of his FHA mortgage proceeds; but his mortgage on the land was substantially in excess of his cost of the land.

The theoretical justification for permitting leasehold mortgages to be insured by FHA was that it reduced the capital required of a section 608 corporation. In areas where building costs are high, such as New York City, it was urged that the $8,100 per unit mortgage ceiling would not permit the construction of rental housing if it were necessary for the sponsor-mortgagor corporation to acquire the land. But this claimed justification for leasehold mortgages does not excuse the inflated valuations that permitted builders to make large profits from mortgages on the land. This practice was particularly unfair in cooperative housing projects, under section 213, in which the cooperators did not know that the property they were purchasing included only the building and not the land on which it was built. This is another example of the way FHA interpreted the law to give the maximum benefit to the builders.

Section E. Cooperative Program

Section 213 of the Housing Act provides for FHA insured mortgages on cooperative housing projects sponsored by "nonprofit" corporations or trusts. The committee's investigation of the housing program discloses virtually no instance in which a true cooperative utilized this section of the act. In almost every case the project was built by a promoter for profit utilizing this provision of the statute, with its maximum 95 percent of estimated cost mortgages, because

of its more profitable provisions. This is particularly true of the single family *sales* houses, built under the cooperative housing section of the act, under which promoters not only obtained 95 percent mortgages but also had their construction advances insured by FHA (as distinguished from the conventional sale house program under sec. 203 in which FHA did not insure construction advances.)

The greatest number of "cooperative" multifamily projects constructed under this "nonprofit" section were in the New York area. The plan generally used was for the promoter to acquire land on which the project was to be built and lease that land to the cooperative project for a long term of years. The cooperative apartment owners were generally not aware of the fact that even after paying off the mortgage they would still not own the land. They never will own the land and are required forever to pay the ground rent or lose their building.

As shown in the preceding section these leaseholds were most profitable for the promoter.

The plan also generally called for the promoter to create and control the nonprofit cooperative corporation. That corporation was usually organized by nominees of the promoter. They in turn would enter into a contract with the promoter's construction company for the construction of the project. The same persons sat on both sides of the table in determining the terms and provisions of that construction contract, including the amount that the cooperative corporation must pay the construction company. More important, the contract generally provided that the final payment was to be made to the construction company when the project was approved by the cooperative corporation. The promoters were careful to retain control of the cooperative corporation until after they had approved their own work. Then they would permit the cooperators to elect their own board of directors.

A most unusual use of the nonprofit cooperative section of the act for single family *sales* houses was employed in the Los Angeles area by Ben Weingart and Louis Boyer in projects involving $62 million of FHA-insured mortgages. Weingart and Boyer promoted Carson Park Mutual Homes and Lakewood Park Mutual Homes as cooperative housing projects. Weingart made arrangements with Investors Diversified Services for the interim financing and thus avoided the necessity for the individuals to advance money to start the project. In return, Investors Diversified Services received roughly half the profits. Nominees of Weingart and Boyer were the incorporators of the so-called nonprofit corporations. Thousands of homes were built and the profits divided between the Weingart and Boyer group and Investors Diversified Services. In the Carson Park project, involving $32.1 million in FHA mortgages, the Weingart and Boyer group invested $65,000 and received profits of $1,417,321, including a profit of $118,485 on their sale of the land to the sponsoring corporation. For arranging the financing, Investors Diversified Services received profits of $1,056,981 in addition to normal interest on all of the funds it had advanced.

In the Lakewood Park project, involving $30.2 million of FHA mortgages, the Weingart-Boyer group and Investors Diversified Services conducted a similarly profitable operation.

The Weingart-Boyer group received commitments from the Long Beach (adjacent to Los Angeles) FHA office for 6,663 units to be

constructed under section 213. The only other section 213 commitment ever issued by that office was a project of 50 units.

The committee heard testimony that the section 213 program was used in Arizona to sell houses without any downpayment on a "for profit" sales program. Hyman Rubenstein testified that a construction company he owned built single family houses which it sold to a nonprofit corporation he controlled for the amount of the FHA mortgage. That mortgage was 95 percent of FHA's estimate of the cost. The nonprofit corporation then sold the houses without any downpayment. Rubenstein testified that these houses were thus sold for approximately $8,000 with a profit to him of $1,000 on each house. If FHA's estimates were in line with Rubenstein's actual costs, FHA was allowing him a 17-percent profit in a program in which FHA insured construction advances and virtually insured the builder against loss.

Section F. The $5 Million Ceiling

In passing the National Housing Act the Congress included in section 608 a number of limitations on the mortgage insuring authority of FHA. One of these limitations, prior to 1948, was that mortgages could not exceed $1,800 per room. In 1948 this limitation was changed to $8,100 a rental unit. The Congress did not intend to raise the ceiling from $1,800 per room to $8,100 per room; it had in mind continued construction on something near the average number of rooms per rental unit that had previously prevailed.

FHA and the builders, however, seem to have continuously searched for means to stretch, evade, and get around the congressional restrictions imposed upon them. They did so with respect to this ceiling limitation by projects in which 80 percent, and even 90 percent, of the rental units were one-room efficiencies. In these projects the mortgage averaged close to $8,000 per room.

Another congressional limitation was that a mortgage could not exceed $5 million. One of the purposes for this limitation was to spread the benefits of the act among the greatest number of people. To the extent that FHA-insured mortgages aggregated as much as $25 million, and even more, on one project this was accomplished by separate mortgages of separate mortgagor corporations on different buildings in the project. But having separate mortgages on separate buildings in the same project was wholly in technical compliance with the statute. However, in the cases in which FHA insured more than one mortgage, in amounts aggregating more than $5 million, on what was basically one building, it was deviating from the statutory purpose expressed by the Congress.

The Claiborne Towers project on Claiborne Avenue in New Orleans, and the Woodner project on 16th Street in Washington, D. C. involved mortgages of more than $5 million. Most of the units in these 2 projects were 1-room efficiencies which may be classified as luxury apartments and not the middle income type of rental housing the act sought to encourage.

The Claiborne project in New Orleans was built by Shelby Construction Co., whose activities are frequently discussed in other sections of this report. The FHA New Orleans office refused to approve the project. Approval came from Washington in a memo-

randum from Powell to Curt C. Mack, Chief Underwriter, advising that Powell's office had approved revised plans. Eighty-six percent of the units in this project are 1-room efficiencies. The project is on the north side of Claiborne Avenue and extends for a full block from Canal Street to the west. A mortgage of $4.6 million is on the east half of the building and a mortgage of $4.6 million is on the west half of the building. The lobby entrance is in the center of the building. There are 6 elevators of which 3 are on either side of the centerline of the building. There are 2 heating units in the building which could be so utilized that each would heat half of the building. The plans were drawn so that a wall could be built through the center of the building to separate the east half from the west half and leave each as a complete building. However, the outer brick wall is only 1 building enclosing what the mortgagors pretend is 2 buildings. The bricks are laid overlapping each other and in order to separate the theoretically two buildings by so much as one-sixteenth of an inch it would be necessary to cut every other brick in half. The main entrance, a large modernistic entrance, straddles the theoretical dividing line for the two projects.

The Woodner project in Washington, D. C. is covered by a mortgage of $5 million on one-half of the project, and a mortgage of $4.9 million on the other half of the project. In this case the buildings are actually separated by a distance of 1 inch with a caulking compound packed into the separation. As in the case of the Claiborne Towners project, the interior halls in the Woodner project extend from building to building wholly as though it were one property. Common switchboards serve both sections. There are separate elevators and separate boilers which could be used to operate separately each of the sections if it was desired to do so. But Woodner testified that it would not be economical for different owners to operate each section.

It would never occur to even a trained inspector that either of these projects was composed of two separate buildings unless he were advised of that fact and examined the plans for the theoretical dividing line.

Section G. Hotels Under Section 608

The rental housing program, to provide living units for returning veterans, was recognized by FHA as not including financial assistance in the construction of hotels. Yet in many instances it was not difficult to induce FHA to permit all or a substantial part of a project to be turned into a hotel. The Warner-Kanter Co. built Essex House in Birmingham, which after completion was converted into what amounts to a hotel. Later Warner-Kanter obtained FHA approval to construct an Essex House in Indianapolis; 93 percent of the 390 units in that project consist of 1 room. Shortly after completion of the building he sponsors told FHA that their inability to rent that project made it necessary that they furnish some of the apartments and later to provide maid service. FHA approved furnishing 150 of these units and providing maid service. There are many similar projects throughout the United States.

The Woodner project in Washington is perhaps the most glaring example of the use of section 608 for a hotel property. The record supports the conclusion that its sponsors intended to operate the property as a hotel from the inception of the project.

The plans called for stores, shops, and restaurants on the ground floor although the District of Columbia zoning ordinances prohibit such commercial use of property in that area except in hotels. The record contains a letter dated December 20, 1949, from A. A. Bliss of the legal division of Irving Trust Co., New York, the mortgagee, to the Woodner Co., written less than 2 months after the FHA commitment was issued and prior to the construction of the project, that is in part:

> As I understand it, you will apply for a hotel permit when the project is ready for occupancy, and the commercial space will not be utilized unless the hotel permit is issued.

When the project was completed the District of Columbia refused to grant an occupancy permit unless 40 percent of the rooms were converted to a hotel. Woodner asked the local FHA office in Washington for permission to do so, pointing out that he had invested $700,000 in the construction and furnishing of commercial facilities which could only be utilized, under the local zoning ordinance, in a hotel. The District FHA director for Washington refused to grant this permission and in June 1952 the matter was taken for review before the national FHA office. Franklin D. Richards was then FHA Commissioner and the matter was brought to his attention in June, although no decision was then reached. Richards resigned as FHA Commissioner effective June 30. On July 22, he was retained by Woodner in connection with this request to operate the project as a hotel. Richards was to be paid a retainer of $5,000 and an additional $5,000 if they were successful in obtaining hotel approval. Powell reversed the local office and granted Woodner permission to convert 238 units into a hotel.

The incidents of using section 608 properties for hotel purposes, exceeding the statutory $5 million ceiling, and permitting a substantial majority of the units in a project to be 1-room efficiencies are not in themselves of any great importance except that they further illustrate the extent to which FHA sought to extend, circumvent, and evade the congressional purposes of the National Housing Act. On the contrary, it should have been FHA's purpose to use every effort to carry out the intended will of the Congress.

Section H. Disregard of Wage-Rate Requirements

In 1939 Congress adopted an amendment to the National Housing Act to insure that builders who obtained the benefits of that program would pay the prevailing local minimum wages, as certified by the Secretary of Labor. Section 212 of the act expressly provides that the FHA Commissioner shall not approve any application for mortgage insurance under that act unless the contractor files a certificate that the laborers employed in the construction have been paid not less than the prevailing local wage rates, as determined by the Secretary of Labor prior to the beginning of construction. The act also authorized the Commissioner to make such rules as may be necessary to carry out the provisions of this section.

FHA construed the act as requiring merely that the contractor furnish it with a certificate of the payment of prevailing wage rates. It considered the filing of such a certificate conclusive, refused to be con-

cerned with charges of substandard wage payments, and would not look beyond an appropriately executed certificate. The Department of Labor investigated thousands of cases of alleged violations of this provision of the Housing Act. It referred many such cases to FHA. Prior to 1950 FHA refused to take any action in these matters. Beginning in 1950 it did carry on some investigative work on projects referred to it by the Department of Labor. In the period 1939 through 1952 only two such cases were referred by FHA to the Department of Justice. The testimony of Deputy Housing and Home Finance Agency Administrator McKenna is that a spot check of FHA files disclosed 95 projects in which construction workers were underpaid $1,023,000. A common practice of contractors was said by him to be to classify skilled workmen as apprentices and to pay them at the lower wage rates.

One project, McKenna testified, 80 carpenters, whose experience averaged 8 to 10 years were classified on the payroll as apprentices and paid from $0.75 to $1.37 an hour while the wage rate for carpenters was $1.65 an hour. On another project of the same contractor 83 experienced carpenters were found on the payroll as apprentices. The divergence in wage payments was similar to those in the first project. On a third project of that contractor 152 experienced carpenters were designated as laborers and paid $0.75 to $1.25 an hour while the prevailing carpenter's rate in that area was $1.37½ an hour.

The testimony shows that in one case in which there were wage violations amounting to $25,947 the FHA mortgage commitment was increased $29,100. In another case in which there were wage violations of $8,267 the commitment was increased $8,200. This paternalism toward builders subjected the workers on the projects to severe monetary penalties.

FHA had no procedure for barring contractors found guilty of wage violations in one project from participating in other projects, or even for subjecting their subsequent projects to special scrutiny.

PART V. ECONOMIC IMPACT ON TENANTS

The excessive and unreasonable "windfall profits" achieved by builders under the section 608 program is necessarily either at the expense of the tenants renting apartments in such projects or at the expense of FHA (and the Government as guarantor of the obligations of FHA). To date the Government has sustained no actual loss on these properties. The losses accrued on properties that have defaulted and have been acquired by the FHA have been, or will be, met by reserves of $105.2 million which FHA has set aside from insurance premium receipts. Tenants, however, have been required to pay large sums in extra rent to "bail out" properties encumbered by mortgages substantially in excess of actual costs.

For every hundred million dollars that FHA-insured mortgages exceed 90 percent of what would have been the estimated costs had FHA estimates been based on "the actual costs of efficient building operations," tenants may be required to pay $6.5 million in excessive rents each year during the 30 years of the mortgage. Only competitive conditions in the rental housing field making available alternate accommodations at lower rents will relieve those tenants of this obligation.

The charter of each section 608 corporation permits FHA to approve maximum rentals. FHA rentals were determined, in advance of construction, by the FHA "project analysis" which was the basis of the FHA commitment to insure the mortgage. These rentals were based upon the *lower* of: (*a*) What was then the market rental being paid for comparable accommodations; or (*b*) rentals which would provide a return of all operating expenses (including interest and amortization) and a 6½ percent *net return on the estimated cost of construction*, after an allowance of 7 percent for vacancies and for other loss of rental income. In actual practice the yardstick for measuring such rents was the 6½ percent net return on the estimated cost of the property. It was actually in excess of 6½ percent of the estimated cost due to the 7 percent vacancy allowance and the fact that most section 608 projects had almost no actual vacancies.

When the actual costs were substantially less than FHA's estimate of costs, the rents were nevertheless based on a 6½ percent net return on the original FHA estimate. And the rents were not based on the amount of the mortgage (90 percent of the estimated costs), but on the full amount of the FHA estimate of costs. Furthermore, if operating expenses, taxes, or other recurring items of expense were increased to a level beyond those used in the original FHA estimate, the sponsor could file an application for an increase in rents, which was generally allowed and the rents charged to tenants were further inflated, even though there had already been an excessive rent initially established.

The Shirley-Duke project was estimated to cost $15.3 million. The actual cost of the project was $10.8 million, excluding the $900,000 promoters' fee paid Investors Diversified Services, or $11.7 million if that fee is included as item of cost. The rental schedule, approved

prior to the construction of the project, permitted the sponsors to charge tenants $250,000 to $325,000 a year in excess of what would have been the rents had the actual, instead of estimated, costs been used. This is in excess of $115 per apartment per year in additional rent. Nevertheless, not long after completion of the project, FHA approved a rent increase, based on increased operating costs, of $89,994 a year.

In the Glen Oaks case, in which there was a $4.6 million "windfall" on the FHA-insured mortgage on the building and a $1.4 million "windfall" on the mortgage on the land, FHA subsequently granted increased rentals, based on increased operating costs, of $231,681 annually.

The table following shows section 608 projects on which "windfalls" were shown at the public hearings of this committee and in which FHA has permitted tenants to be charged increased rentals based on higher operating costs.

Rental increases on windfall projects (public hearings only)

Sponsor and projects	Project location	Windfall	Number of rooms	Annual rental increase
Joseph J. Brunetti:				
Richfield Village (8 sections)	Clifton, N. J	$135,718	4,064	$52,153
Brookchester (10 sections)	New Milford, N. J	1,071,175	5,506	233,664
Wright Village	Lodi, N. J	144,458	2,056	34,541
Maybrook Gardens (6 sections)	Maywood, N. J	9,695	1,343	29,704
Rutherford Park Apartments	Rutherford, N. J	43,129	516	4,768
Total		1,404,175	12,485	354,830
Alfred Gross, Lawrence Morton, George M. Gross: Glen Oaks (11 sections).	Bellerose, Long Island, N. Y.	3,600,000	12,346	231,681
B. Gordon, Jr., E. J. Preston, H. W. Hutman: Shirley-Duke (6 sections).	Alexandria, Va	2,119,353	7,928	89,994
Ian Woodner, Max Woodner, Beverly Woodner:				
Crestwood Lake Apartments, No. 1	Yonkers, N. Y	79,392	1,064	9,321
Manor Park Apartments (2 sections)	Wilmington, Del	10,283	1,534	38,712
Columbia Heights, No. 4	Arlington, Va	77,294	1,314	62,136
Total		166,969	3,912	110,169
Davis A. Finkelstein, Herman D. Paul, Harry A. Rosenfeld: University Hills.	Prince Georges County, Md.	478,861	1,314	62,136
Ben Cohen: Penn Manor (4 sections)	Pennsauken, N. J	135,000	1,326	44,514
Morty Wolosoff: Alley Pond Park (2 sections).	Bayside, N. Y	475,577	928	58,500
James J. Keelty: Rogers-Forge Apartments (2 sections).	Baltimore, Md	834,596	2,082	40,973
Thomas J. O'Brien: Meadowbrook Corp.	Indianapolis, Ind.	36,604	2,675	46,129
Herbert Du Bois:				
Clover Hills Gardens	Mount Holly, N. J.	280,000	794	17,152
Parkway Apartments	Haddonfield, N. J.	250,000	1,591	43,339
Total		530,000	2,385	60,491
Saul Silberman: Uplands Apartments	Baltimore, Md	552,000	2,007	14,450
Samuel J. Rodman: Atlantic Gardens, No. 1.	Southeast Washington, D. C.	95,000	163	1,643
Dewey Gottlieb: District Heights (4 sections).	District Heights, Md.	1,296,900	2,280	55,685
Bernard Weinberg:				
Pleasantville Manor	Pleasantville, N. J	228,000	968	19,515
Barrington Manor	Barrington, N. J	482,967	1,350	34,992
Total		710,967	2,318	54,507

Rental increases on windfall projects (public hearings only)—Continued

Sponsor and projects	Project location	Windfall	Number of rooms	Annual rental increase
Fred Schneider:				
Parkchester Court (4 sections)	Southeast Washington, D. C.	120,000	1,100	16,719
Rhode Island, Inc.	Northeast Washington, D. C.	270,000	1,284	25,423
Total		390,000	2,384	42,142
Charles Rose: Jefferson Village (10 sections).	Falls Church, Va	281,435	2,794	37,240
Herbert Glassman: Glassmanor (3 sections).	Prince Georges County, Md.	251,102	3,485	15,308
William S. Banks: University City	do	195,574	1,516	22,677
Albert Stark:				
Drum Castle Apartments	Baltimore County, Md.	202,189	1,202	15,434
Seton Heights	Baltimore, Md.	2,716	900	11,988
Total		204,805	2,102	27,422
Alexander Muss:				
Sunset Gardens	Nutley, N. J.		323	4,380
Boulevard Gardens	Bayonne, N. J.	138,142	854	43,544
Total		138,142	1,177	47,934
Israel Orlian: Floral Park, Inc.	North Bergen, N. J.	148,089	1,092	20,049
Benjamin Neisloss: Brookside Gardens	Somerville, N. J.	525,616	1,653	62,462

Prior to December 17, 1947, rental housing projects having insured mortgages of $200,000 or less were not subject to rent controls by FHA. Projects in excess of $200,000 prior to that date, and all projects since that date, have been subject to this control over rents. This authority to control rents remains effective so long as the FHA-insured mortgage is in effect.

As long as a shortage of rental housing exists, tenants will have little choice but to pay these higher rents that are due to excessive cost estimates. It is difficult to estimate the amount of such excessive rents that are now being paid by tenants except that it is a very substantial sum annually. It is not feasible for the FHA Commissioner to reduce those rents (assuming he has the authority so to do) as long as the inflated mortgages remain unpaid. For the Commissioner to reduce rents below the levels required for interest and amortization on the inflated mortgages would only precipitate a default in the mortgage and require the Government to issue its bonds for the mortgage indebtedness, and to take over the property. If FHA is successful in its current action to recover windfall profits, we assume that such recovery will be applied to reduce the mortgage indebtedness and thereby reduce the necessary rents required from tenants to carry the property.

Unless the carrying charges of such mortgages can be reduced, tenants would appear to have no relief from these excessive rentals until comparable housing becomes available in projects which do not require excessive income to cover carrying charges on excessive mortgages. If and when that day comes, the owners of projects on which there are excessive mortgages will either be required to reduce their rents or will find their apartments vacant. In either event, it is not unlikely that projects with excessive mortgages will then default

and that the FHA will be required to take over the properties. Unfortunately it seems that in every case either the tenants or the Government will sustain a loss resulting from these excessive mortgages.

The chart on the opposite page reflects the rentals authorized to be charged, by States, in section 608 projects. The lowest rentals were in Mississippi and the highest in Illinois. Only 10 percent of the project rentals were below $60 a month and more than 60 percent were above $80. More than 20 percent of these projects rented for more than $100 per month per apartment and in Arizona, Nevada, and Illinois the median rental of all section 608 projects in those States exceeded $100 per month per apartment. The median monthly rent for the country is $86.41.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR, DOUGLAS, AND LEHMAN

It is obvious that "mortgaging out" plus the fact that rent schedules generally were based on the FHA estimate of cost rather than on actual cost have resulted in higher rentals in some projects than might otherwise be the case.

To complete this picture of the 608 program we should point out its merits. It has provided for construction of 465,683 housing units in 7,045 projects to meet the housing needs of war workers and returning veterans. The number of these projects found by the committee to have mortgages in excess of costs is about 6.7 percent. Out of about half a million units in the 608 program, there is no evidence to show that the great proportion carried higher than necessary rentals because of mortgaging out.

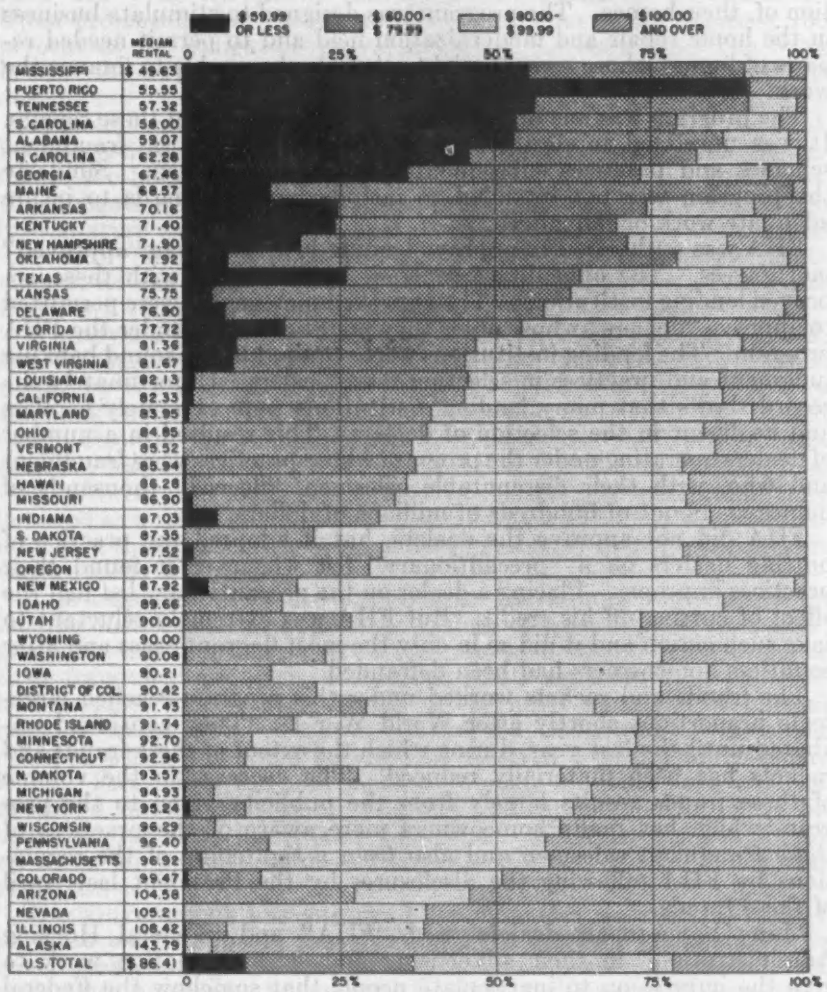
The impact of the approximate half million units built under the 608 program must have had considerable competitive effect upon rent levels generally. In all likelihood the mass effect of the units developed under the 608 program reduced rents far more than rents were increased as a result of mortgaging out.

STATEMENT BY SENATOR CAPEHART

It is inaccurate to state that the projects found by the committee to have mortgages in excess of cost is 6.7 percent. The public hearings inquired into 543 projects of which 80.5 percent were shown to have mortgages in excess of costs. Not more than an additional 200 projects were investigated. Of projects called to the committee's attention, inquiry was made only in those cases where a sponsor's total mortgage exceeded his total cost. No inquiry at all was made by the committee into the remaining 6,300 projects because we had neither the time nor the staff. We just do not know how many of these 6,300 projects had mortgages in excess of costs.

PROJECT MORTGAGES WITH INSURANCE IN FORCE UNDER SECTION 608

PERCENTAGE DISTRIBUTION OF MONTHLY RENTAL AS REPORTED FOR OCCUPANCY SURVEY OF MARCH 31, 1954



	MEDIAN RENTAL
MISSISSIPPI	$ 49.63
PUERTO RICO	55.55
TENNESSEE	57.32
S. CAROLINA	58.00
ALABAMA	59.07
N. CAROLINA	62.28
GEORGIA	67.46
MAINE	68.57
ARKANSAS	70.16
KENTUCKY	71.40
NEW HAMPSHIRE	71.90
OKLAHOMA	71.92
TEXAS	72.74
KANSAS	75.75
DELAWARE	76.90
FLORIDA	77.72
VIRGINIA	81.36
WEST VIRGINIA	81.67
LOUISIANA	82.13
CALIFORNIA	82.33
MARYLAND	83.95
OHIO	84.85
VERMONT	85.52
NEBRASKA	85.94
HAWAII	86.26
MISSOURI	86.90
INDIANA	87.03
S. DAKOTA	87.35
NEW JERSEY	87.52
OREGON	87.68
NEW MEXICO	87.92
IDAHO	89.66
UTAH	90.00
WYOMING	90.00
WASHINGTON	90.08
IOWA	90.21
DISTRICT OF COL.	90.42
MONTANA	91.43
RHODE ISLAND	91.74
MINNESOTA	92.70
CONNECTICUT	92.96
N. DAKOTA	93.57
MICHIGAN	94.93
NEW YORK	95.24
WISCONSIN	96.29
PENNSYLVANIA	96.40
MASSACHUSETTS	96.92
COLORADO	99.47
ARIZONA	104.58
NEVADA	105.21
ILLINOIS	108.42
ALASKA	143.79
U.S. TOTAL	$ 86.41

PART VI. THE HOME REPAIR IMPROVEMENT PROGRAM

Title I of the National Housing Act, as adopted in 1934, authorized FHA to insure obligations of homeowners for repairs to, or modernization of, their homes. The program was designed to stimulate business in the home repair and modernization field and to permit needed repairs of homes whose owners might otherwise be unable to finance the work.

The program was one of guaranteeing the financing of these repairs. It was unrelated to protecting homeowners against the fraudulent schemes and practices subsequently worked upon them. Similarly the program was not intended to include any safeguards to insure adequate work or fair prices.

FHA was authorized to approve lending institutions as "approved" mortgagees. The only direct contract by FHA was with these approved lending institutions. The approved mortgagees were permitted to approve "dealers" whose notes they might discount under the FHA program. The lending institutions were required to use sound banking judgment and practices in selecting these dealers. Unfortunately the record shows that many lending institutions were extremely careless and negligent in the selection of dealers. This resulted in a number of dealers operating under the program whose practices were fraudulent and who, with their disreputable salesmen, "fleeced" thousands of homeowners out of hundreds of millions of dollars.

FHA did not approve the dealers, but it adopted the practice of putting dealers on a "precautionary" list whenever it found their practices improper. Placing a dealer on the precautionary list had the effect of cutting off his credit. But FHA was extremely reluctant to take such action and it did so in only the most flagrant cases and after countless homeowners had been defrauded.

The frauds and rackets worked under this program reached large-scale proportions shortly after World War II. They continued unabated until the last year, during which the extent of these frauds and rackets has been materially reduced. The decrease in the volume of these frauds results largely from the publicity given to the program which has made homeowners more aware of the practices of these fraudulent salesmen and also from a tightening of the regulations by FHA following the disclosures by the President last April of these frauds.

Many home-repair dealers used "FHA" and "Federal Housing Administration" in their advertising and sales promotion work to give the impression to inarticulate people that somehow the Federal Government was back of the work. Many homeowners purchased such work in the belief that the Federal Government, through the instrumentality of FHA, would somehow see to it that the work was properly performed and that the charge was fair and reasonable. It is unfortunate that a program, designed merely to finance paper

taken by dealers for such work, should be sold to the homeowners as protecting them in the character of the work they received.

Under this program any dealer, able to make arrangements with a lending institution to discount his paper, could contract with homeowners for such repairs. On completion of the work the homeowners sign a "completion certificate." Many disreputable dealers obtained this certificate, signed in blank, at the time the initial contract was signed. In other cases signing of the certificates was induced by false and even fraudulent misrepresentations as to its character. Upon presenting that certificate to the bank the dealer obtained 100 percent of the obligation provided for by the contract. The bank became the owner of the paper and there was no recourse against the dealer.

These obligations were negotiable instruments as to which the bank became a holder in due course. Under the law of negotiable instruments the homeowner was required to pay the bank the amount of this obligation in spite of any fraud practiced upon him (except when his signature was forged to the note). The obligation of the bank was insured by FHA against losses up to 10 percent of the aggregate amount of the loans, which in effect permitted almost every bank to enjoy a 100-percent Government guaranty.[1]

Whenever a homeowner defaulted in the payment of his obligation, and the bank was unable to collect the note, the obligation was assigned by the bank to the Government. FHA was required to pay the bank the amount of the debt which it then referred to the United States attorney for collection. In countless cases the United States attorney has, in the name of the United States of America, either filed suit, or threatened to file suit, against homeowners for obligations they incurred as a result of fraudulent practices by which they were victimized. In thousands of cases the work represented by these obligations was virtually worthless.

A principal cause of the home-repair frauds was: first, laxity by lending institutions in approving dealers of questionable character; secondly, their continuing to do business with dealers after notice of their fraudulent practices; and, third, their accepting the paper of homeowners whose credit would never have sustained a normal banking transaction. Testimony heard by the committee included cases in which the same person had received 4 and 5 home-repair loans. Frequently the later loans were made after the borrower had defaulted on the first loan. Lending institutions should justly be criticized for their laxity and negligence. FHA is also subject to criticism for permitting these lending institutions to be so lax and negligent.

The Government has sustained no monetary loss in the title I program and it appears that existing FHA reserves are adequate to cover such contingent losses as may ultimately accrue against FHA under this program. Substantial losses in the home-repair program have been sustained by homeowners who were victimized by unscrupulous salesmen and dealers. By handling FHA papers, and because of misrepresentation by salesman and dealers, many of these victims thought that they would receive Government protection through FHA supervision.

[1] In 1954 the Congress amended the statute to require the lending institutions to assume 10 percent of the loss on each individual loan.

In the 20 years the program has been effective, FHA has insured 17 million home-repair or improvement loans in the total amount of $8 billion.

The frauds in this program were not confined to any geographic area. In every city in which the committee held hearings we discovered a large number of title I frauds. Perhaps the greatest number occurred in California where climatic and living conditions were peculiarly adapted to the fraudulent practices in the sale of patios, barbecue pits, and similar improvements. Representatives of better business bureaus were called to testify in several cities. In each instance they testified that their offices had received many complaints regarding title I fraud. The evidence also showed that they had done a good job in attempting to correct these abuses.

The committee heard 118 witnesses testify on the title I program—approximately one-third the total number of witnesses heard. Sixty-three of those witnesses were homeowners who had been victims of these fraudulent practices. Others were FHA representatives, better business bureau officials, a representative group of the dealers and salesmen responsible for these frauds, and officials of lending institutions accepting the notes of those dealers.

In each city where hearings were held there was virtually an unlimited number of homeowners anxious to testify to the frauds by which they had been victimized. Twenty-two dealers or their salesmen were heard whose testimony, recognizing the unwillingness of the unscrupulous to admit their misdeeds, gives a representative indication of the manner in which these frauds were practiced. Three of those witnesses availed themselves of the constitutional privilege against self-incrimination.

The hearings revealed that many of the dealers and salesmen who victimized the public were men with known criminal records and other unsatisfactory backgrounds. The tactics employed by those men embodied the elements generally employed by professional criminal confidence men.

Many of the pitches, approaches or gimmicks employed to induce the homeowner to purchase from such dealers and salesmen were no more than the ageless appeal to human nature to get something for nothing. The sales techniques used by such individuals were as many and varied as their imagination and knowledge of human nature could devise.

The "model home" or "bonus" pitch, as it was referred to in the trade, was used most frequently. The homeowner was told that the salesman had made a survey of the neighborhood and had chosen his home as a model home. The stated reason for selecting this particular home was generally because the homeowner had such an attractive yard, or the shape or size of the particular home, or any other features which the salesman chose to use to justify the selection. This was merely the entree. Every home in the neighborhood that might need repairs was a so-called model home. To continue the pitch, the salesmen would promise the homeowner to send prospective customers to see the job purchased by the homeowner, whether it be siding, roofing, patio or any one of the other numerous improvements. For each such prospect who purchased a similar job this homeowner would receive a commission or bonus of $25 or $50 or $100. The amount actually promised was immaterial since the written contract signed by the homeowner

made no mention of such oral promises. The salesmen would continue the pitch by assuring the homeowner that in reality his improvement would cost him nothing. The homeowner was told that he would assuredly pay for his own job and probably earn some extra money on the commissions or bonuses. When these pitches were used the contract price was uniformly excessive although the homeowner was generally told the price was the company's cost because this was a model home. Sometimes the price paid would actually run 2 or 2½ times what the homeowner would have paid for the job if done by a reputable local dealer or contractor.

Rarely was any money ever paid a homeowner as a result of the bonus promise made in conjunction with the model-home pitch. Even when homeowners actually sold jobs to their own friends or relatives they usually did not receive the commission.

The dealers and salesmen who made a racket of the home-improvement program were for the most part fly-by-night or "Johnny-come-lately" operators. Their methods of operation are not to be attributed to the multitude of small local contractors, residents of their communities, who sold home improvements of quality materials and workmanship at fair prices under FHA loans. The unscrupulous dealers are distinguishable chiefly by their business practices.

The testimony of a group of dealers and salesmen heard at the Chicago, Indianapolis, and Detroit hearings particularly emphasizes these fraudulent practices.

Harry Cane, brother of Mickey Cohen, notorious west coast figure, and himself a man of considerable accomplishment in undesirable activities, entered the FHA home-improvement field as a salesman about 1941. In 1948 he organized a group of high-pressure-type salesmen under the firm name of Cane Enterprises & Associates. Many of these so-called "salesmen" had known criminal records. This group, and others like them, were quite aptly termed "dynamiters." From 1948 until the arrest of about 10 of the group in Houston, Tex., during 1951, Cane utilized that selling organization in the home-improvement field in various sections of the country.

Cane operated on the "par system" for compensating salesmen. His peculiar technique of operation was to move into an area where a local dealer had arranged to distribute a product lending itself to this type of operation, most frequently siding, and to arrange with that dealer to sell the entire lot even before the wholesaler's invoice for the product became due. They could and did "dynamite" a particular area in a short time.

The "par" system was particularly adapted to encourage these frauds. The dealer would fix a price as "par" to the salesman. The salesman was free to sell the job at any price, above "par," he chose. The difference between "par" and the sales price was the salesman's commission. Most of the disreputable title I dealers subcontracted the actual work to contractors and were themselves merely brokers. It was not unusual to hear testimony of a job costing $300 from the contractor doing the work being listed at a "par" of $500 by the dealer and being sold by the salesman to a homeowner at $800 to $1,000. In many cases the salesman "bribed" the homeowner by giving him as much as $200 in currency to sign the contract and then adding that amount to the so-called sales price.

Harry Nassan was another Chicago dealer operating on a grand scale, with a prior criminal record involving use of the mails to defraud. He entered the business in 1946 as the owner of Atlas Construction Co. Better business bureau and FHA files indicate a number of complaints against his operations. One of his salesmen, or "brokers" as he liked to call them, was *Richard Vidaver* who twice before this committee availed himself of the constitutional privilege against self-incrimination when questioned about his title I home-repair activities.

Jerome Brett was still another dealer witness, the subject of a long history of complaints to FHA, who from 1941 through 1952 was president of the Pioneer Home Improvement Co. in New Jersey. Homeowners testified before this committee as to the various abuses practiced upon them in connection with contracts of this company. Brett's Pioneer Home Improvement Co. went bankrupt in 1952 and Brett himself testified that the cause of this bankruptcy was the large number of complaints against his company in connection with his company's sale of a defective paint product under FHA loans.

Jack Wolfe, another possessor of a criminal record, during 1951 and 1952 organized or held an interest in no less than five different home-improvement concerns in the Des Moines, Iowa, area. His testimony emphasized the "fly-by-night" nature of the operations of many of these dealers in that all five of these concerns opened their doors and then went out of business in a matter of months or perhaps at most a little more than a year. Wolfe admitted that many of his salesmen were of the unscrupulous or unethical group when he testified, in effect, that when he tried to operate in a legitimate manner his salesmen left him for greener pastures.

Louis Garthson, onetime president of a concern known as Protexawall and an associate in Permawall, Inc., might be termed typical of the high-pressure-type salesmen who entered the home-improvement field. In 1951, while associated with Permawall, Garthson admittedly prepared the material or syllabus which was used by a "school" conducted for training salesmen in the dynamiting type of high-pressure selling. The chart opposite page 484 of the hearings is an example of the material used at that school. Garthson admitted that he had previously been employed by an appliance store using the well-known and publicized "bait" type of selling and advertising.

Lew Farrell of Des Moines, Iowa, whose real name is Luigi Fratto, became a beer distributor in Des Moines beginning about 1938. Long rumored to have underworld and gambling connections, Farrell would admit only that he was connected with several home-improvement concerns. He denied knowing who were the owners and could not recall either who paid him or who worked for the firm. When asked what his duties were he replied that he just did not do very much.

Floren Di Paglia, who at the time of his appearance before the committee as a witness was under conviction for bribing a Drake University basketball star, became active in the sale of aluminum siding under FHA title I loans beginning in 1949. He started his business in 1951. Di Paglia testified that his best business year in the sale of FHA-insured home improvements was the year 1951–52 when he made approximately $100,000.

Jack Chisik first entered the title I home-repair business in 1938, operating in the Detroit area. He was typical of the most undesirable

type of high-pressure salesmen. In 1952 the Michigan Corporation and Securities Commission suspended his contractor's license as a result of unscrupulous sales practices. Chisik had been associated with at least six concerns doing business in FHA-insured home repairs and improvements.

The Michigan Corporation and Securities Commission and the California Contractors License Board each suspended the licenses of a number of unscrupulous title I dealers in their respective States. These State agencies should not have been required to police an FHA program; and a more vigilant watch over the program should have resulted in FHA eliminating those dealers long before the State agencies were compelled to suspend their licenses. FHA officials in California in charge of the title I program testified that it was necessary to obtain concurrence from Washington before they could suspend the operations of a title I dealer and that it was generally difficult to get approval for such action.

Cozy Homes, Inc., was engaged in the home-repair business under title I of the Housing Act in Detroit. During the committee's hearings in that city we took possession of the books of this company and examined their transactions during a 14-month period. During that time gross sales of the company were $205,533 and the so-called salesmen received $101,017 as commissions. This company operated on a "par" basis and left the salesmen free to fix their own sales prices. The company's "par" was apparently $104,516 on those sales and the salesmen's commissions an almost equal amount. The salesmen received 49 percent of the total sales price, and their commissions added 97 percent to the "par" basis amount which the homeowner was required to pay.

Enterprise Construction Co. was shown by the California testimony to have done the largest volume of business in that State in home-repair contracts under which homeowners were victimized. As its business grew many of its salesmen and supervisors left Enterprise to go into business for themselves. Enterprise was considered the training ground for this work and a substantial portion of those engaged in the business in California where looked upon as "alumni" of Enterprise.

The testimony showed that products such as roofing, siding, and exterior painting were most commonly involved in victimizing the public. The various sales "pitches" such as the "model home pitch" were usually accompanied by extravagant and outrageous claims by the salesman as to the quality or longevity of the product. Product failure to live up to the salesmen's claims was further aggravated by shoddy workmanship.

Many dealers who were represented to the public by their salesmen as contractors with an organization and the know-how to do the job, did not, in fact, employ regular workmen, had no particular know-how, and were, in fact nothing but "fly by night" operators set up to sell a questionable product for a short time and then to move on to exploit a new community. It was common for such dealers, particularly in the field of siding, to employ groups of itinerant "applicators" to perform the work of applying the product. Standards of workmanship were understandably low in such cases. After the dealer had obtained his money from the lending institution, complaints by the homeowner to remedy defective work were most often ignored.

The abuses practiced on the homeowners were fostered by the trade practices commonly engaged in by the unscrupulous dealers in dealing with the unscrupulous salesmen. Most of such dealer witnesses heard by this committee insisted that the salesmen were not their employees, but were "independent contractors." Commonly such dealers would permit virtually anyone, without regard to qualifications or past criminal records, to solicit contracts from homeowners. The dealer supplied the "contractor," or "canvassers" and "closers" as they refer to themselves, with blank FHA title I applications, blank promissory notes, blank completion certificates, and credit report forms. The arrangements comprehended that the salesman would obtain the contract and all the loan papers required to be signed by the homeowner. He then delivered the papers to the dealer and was paid his commission on the price for which the job was sold.

Under the previously liberal rules of FHA, title I loans could be obtained to finance such "improvements" as patios and barbeque pits. The sharp title I operators took full advantage of these liberal rules to exploit the California market for patios and barbeque pits by using variations of the "model home" pitch. It is doubtful that the title I program was ever intended to encompass such things as patios, which most of the public would consider luxuries.

One of the serious consequences of the sales practices engaged in by the home-improvement racketeers imposed a direct burden on the Government. Many victimized homeowners who had purchased home improvements they could not afford on the belief that they could pay for the work out of the "bonuses" they would receive from the use of their home as a "model" were later forced to default on their loans. Others realizing that they had been duped, angrily refused to pay. In many such instances, the lending institutions involved, who ofttimes contributed to the situation by accepting contracts from known sharp dealers, were covered on the defaults by the FHA insurance. In such cases, the Government was required to take over and attempt to collect the loans by direct suit against the homeowners. Witnesses have testified that United States attorneys over the country are today burdened by thousands of such suits.

In Detroit title I home-improvement loans were obtained and the proceeds used for such purposes as the payment of a property settlement on divorce, vacations, the purchases of cars, television sets, and so forth. These cases involved a fraudulent representation by the homeowner in making an application for a loan that the money was to be used for a home improvement. Many of the people involved in these loans were induced to obtain the loans by people who had been or were racketeering dealers in title I home improvements. The promoters of those loans generally obtained a "cut" out of the proceeds of the fraudulent loans thus obtained by the homeowner. It is demonstrable that such schemes could not have flourished if the banks and lending institutions involved had exercised discretion similar to, if not as strict as, that they exercise in granting loans of their own non-Government-insured money.

Title I was intended to make bank credit more readily available to small-home owners for needed repairs, but it was not intended to attract racketeering or to foster deplorable business practice by financial organizations. Detroit, Chicago, and Indianapolis testimony showed that in some situations, where completely fraudulent FHA

title I loans were made, employees of lending institutions received bribes, payoffs, or gratuities for granting such loans. One Chicago witness, claiming personal knowledge of the unscrupulous dealer and salesmen practices in this field, stated that racketeering could not have flourished so widely had not these dealers had a "clout"—underworld term for "connection"—in the banks to accept their contracts in the face of public complaints of sales fraud, product misrepresentation, and unsatisfactory reputations.

There are countless homeowners, victimized under this program, who ultimately paid their obligation for work they did not receive when assured that they had no legal defense to the obligation. In some cases witnesses testified that their property was in worse condition following the work supposedly done by the dealer than if no work had been done at all. Even in most of those cases honest homeowners paid their obligation when they learned that a legal liability had fraudulently been cast upon them.

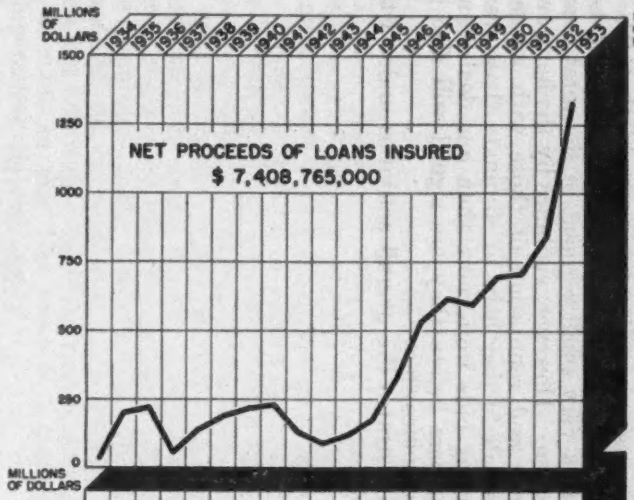
It is difficult to measure the losses to homeowners in this program. In many cases the homeowner paid as much as $900 for work that should not have cost more than $300. In other cases the homeowner may have paid $1,000 or $1,500 for work which was either worthless or worse than worthless in that it left the property in a greater state of disrepair than existed before the work was done. Due to the limitation of time and staff personnel, it was impossible for the committee to determine the total amount of money involved in these illegal practices.

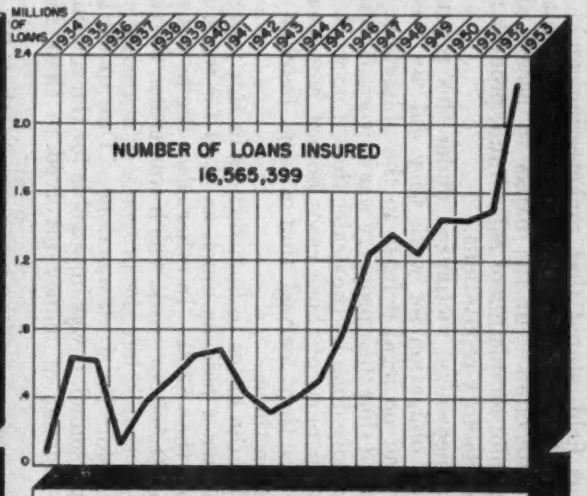
In concluding this discussion, we emphasize again that the dishonest or fraudulent dealers and/or salesmen engaged in the home repair business constitute a very small segment of the total number of such dealers and salesmen. However, vigilance by the homeowner in checking the character and reputation of those with whom he proposed to do business will further help to eliminate those frauds. The insistence upon having bids from more than one dealer and a careful reading of all papers before they are signed will also give further protection to the homeowner.

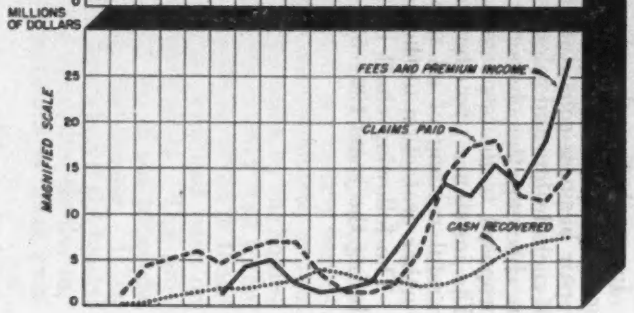
The following chart illustrates the overall activities under title I during the years 1934–53:

PROPERTY IMPROVEMENT LOANS INSURED UNDER TITLE I* BY YEARS 1934-1953

NUMBER AND NET PROCEEDS OF LOANS INSURED, INCOME RECEIVED, CLAIMS PAID AND CASH RECOVERED







KEY STATISTICS - TITLE I, SECTION 2, (Classes I and 2) - 1934 - JULY 1954

NET PROCEEDS OF LOANS INSURED			$ 8,025,898,000
NUMBER OF LOANS INSURED			17,434,671
AVERAGE NET PROCEEDS PER UNIT			$ 460
AMOUNT OF CLAIMS PAID	(2.01%)		$ 161,093,600
NUMBER OF CLAIMS PAID			503,307
AVERAGE AMOUNT OF CLAIM PAID			$ 320
CASH RECOVERED	(40.4%)	$ 65,089,900	
ESTIMATED FUTURE RECOVERY	(10.2%)	16,464,900	$ 81,544,800
CLAIMS PAID (COLLECTION DOUBTFUL)	(0.99%)		$ 79,548,800

TITLE I INSURANCE FUND - JULY 1939 THROUGH JULY 1954

TOTAL INCOME (PREMIUMS, ETC.)	$ 160,222,400	
UNEARNED PREMIUM INCOME	29,861,900	$ 130,360,500
SALARIES AND EXPENSES	$ 25,086,700	
LOSSES AND RESERVES FOR LOSSES	74,173,600	99,260,300
RESERVES (CAPITAL AND SURPLUS)		$ 31,100,200

EXPECTED NET LOSS $ 79,548,800 (0.99%)

* LOANS INSURED UNDER TITLE I, SECTION 2, CLASSES I AND 2

PART VII. GENERAL FINDINGS FROM THE INQUIRY

SECTION A. INCOME TAX IMPLICATIONS IN FHA FRAUDS

Federal income taxes were a substantial factor leading to the windfall profits disclosed by these hearings. Many builders appear to have been more concerned with the extent to which they might avoid payment of normal taxes on their gains than with the manner or the extent of their profits from these projects. Their basic concern appears to have been their profit on the project after the payment of Federal income taxes.

The normal income taxes which most people are required to pay on the earnings from their labors would take a very considerable part of profits running to $3 million, $4 million, and even $5 million on a project taking only 12 to 18 months to build. In most of the projects reviewed by the committee the builders adopted practices designed, we hope unsuccessfully, either to avoid entirely the payment of any income taxes, or to have their profits taxed as long-term capital gains at the 25 percent (now 26 percent) tax rate.

The device generally adopted in their attempt to achieve a capital gain was substantially this: The sponsor of a section 608 project would either have the sponsoring corporation itself act as general contractor for the job, or enter into a contract on a "cost basis" with a construction company owned by the same interests. Upon the completion of the job there would remain in the sponsoring corporation cash representing the difference between the construction costs and the mortgage proceeds. The sponsoring corporation (but not any of the individuals) was liable for the mortgage debt. The obligations of the corporation were not in excess of its book assets (the cost of construction and cash on hand). That financial situation would not permit the payment of a dividend.

The sponsors then would obtain an appraisal of the corporate property for an amount generally well in excess of the mortgage loan. Writing up the book value of the property to the amount of that appraisal created a corporate surplus that was used to justify the payment of a dividend. The cash funds of the corporation, representing the excess mortgage proceeds over all the costs, were then distributed to the promoters as a long-term capital gain.

Not infrequently additional funds were available by which to increase the amount of that distribution. FHA allowed 18 months to complete a section 608 project. Payments on the FHA insured mortgage did not begin until 18 months after the start of construction. Accordingly, if the project could be built in a shorter period of time there was what the builders called the "free-rent period" during which much of the rental income was available for distribution. This income, too, was distributed as long-term capital gains through the device discussed above.

There was another means by which these capital gains distributions were further increased. Interest and taxes during construction are

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generally considered to be a cost of construction. However, tax laws permit these expenses to be charged against operating income. Since FHA mortgage estimates included as costs interest and taxes during construction, by charging those expenses against operating income in the period after tenant occupancy additional funds became available for capital-gains distribution. For tax purposes most builders charged interest and taxes during construction as an operating expense; before this committee they all included those items as construction costs.

In at least two cases the Internal Revenue Service issued rulings that such distributions were long-term capital gains. One of these rulings involved 1 of the 6 corporations in the Shirley-Duke apartments project in Alexandria, Va. On November 30, 1950, the Deputy Commissioner of Internal Revenue wrote the sponsor that since construction had been completed and all costs had been paid, funds transferred to the capital account and distributed to the shareholders would be taxable as a long-term capital gain. The present Commissioner of Internal Revenue has reversed that determination. In a test case now pending before the Tax Court (*George and Anna Gross, et al.*, v. *the Commissioner of Internal Revenue*) he contends that "windfall profits" of section 608 projects are subject to the payment of normal income taxes.

The Commissioner of Internal Revenue has advised this committee that if he is successful in that test case, he intends to proceed against all similar cases. One of the incidents leading to this investigation was the report by the Commissioner to the President listing 1,149 cases in which such windfall profits had been received and were disclosed by the tax returns filed by the corporations. The Commissioner testified that he believed that there were several hundred additional cases to be added to that list.

Glen Oaks Village

The pending test case involves the profits of 11 Glen Oaks Village corporations that obtained FHA-insured mortgages of $24.4 million on a leasehold. Construction costs were about $4.3 million less than the mortgage proceeds. These corporations distributed to their stockholders $4.6 million. It is that distribution which is the basis for the pending test case. The sponsors also obtained a mortgage on the land for $1.4 million more than they paid for the land.

Two recent cases, *Commissioner of Internal Revenue* v. *Fannie Hirshon Trust*, decided by the Court of Appeals for the second Circuit Court, May 17, 1954, and *Commissioner of Internal Revenue* v. *Estate of Ida S. Godley*, decided by the Court of Appeals for the second Circuit, May 28, 1954, appear to support the position taken by the Commissioner with respect to the tax liability on the distribution of windfall profits.

William J. and Alfred S. Levitt; Levittown

The extent to which builders went in making certain that such profits would not be subjected to normal income taxes is shown in the Levittown, N. Y., project. William J. and Alfred S. Levitt built approximately 18,000 houses in Levittown, N. Y.; 6,000 of these were single-family rental houses constructed under section 603 of the act. Cost figures are available only for 4,028 of those rental houses which were constructed by Beth-Page Realty Co., a corporation owned by

the Levitt brothers. The capital stock of Beth-Page Realty Co. was $50,000. The FHA insured mortgages were for $29,946,500. Total construction costs were $5.1 million less than the FHA insured mortgages.

The Levitts' objective appears to have been to withdraw that cash surplus from the corporation without liability for the payment of normal income taxes. The assets of Beth-Page after completion of those houses, were 4,025 dwellings and that $5.1 million in cash.

The Levitt's advisers conceived the idea of selling the Beth-Page stock to a charity which could purchase the stock with the cash funds of the corporation obtained by declaring a dividend. Efforts were made to locate a suitable charity. Junto, Inc., accepted the proposal. Junto was a charitable corporation engaged in adult education whose total assets at the time of this transaction were less than $2,000.

With the aid of partial temporary (for a few days) financing from a cooperative bank, Junto purchased the Beth-Page stock from the Levitts for $5.1 million, declared itself a dividend of $5.1 million the very day of the purchase, and then paid the $5.1 million to the Levitts for the acquisition of the stock. As a charitable corporation, Junto took the position that the dividend to it was not taxable. The stock had been held for more than 6 months by the Levitts who therefore claimed a long-term capital gain on the proceeds from the sale.

The Levitts undoubtedly could have sold the 4,028 houses for $5 million above the amounts of the respective mortgages. However, if $10 million had thus been available for distribution, but subject to normal income taxes, the net return to the Levitt brothers *after taxes* would have been substantially less than the $3.8 million ($5.1 million less 25 percent) that they received on the long-term capital gains through the courtesy of Junto.

Shelby Construction Co. and Warner-Kanter Cos.

The second tax pattern followed by section 608 builders was designed to avoid the payment of all taxes. Shelby Construction Co., the Warner-Kanter Cos., and Saul Silberman are illustrations of this technique.

Paul Kapelow and Louis Leader incorporated Shelby Construction Co. in 1948 with a capital of $100,000. (Emile Bluestein originally owned 10 percent of the stock but they later bought him out for $315,000.) Kapelow and Leader created 11 corporations, known as the Parkchester group, which were wholly owned subsidiaries of Shelby. These corporations had no assets (perhaps a few hundred dollars each) other than the land on which the project was subsequently built. Those 11 "paper" corporations obtained mortgage commitments from FHA in the amount of $10.8 million for the construction of a section 608 project in New Orleans.

The Parkchester group corporations then entered into contracts with Shelby for the construction of the project for amounts which resulted in Shelby obtaining the entire mortgage proceeds. The cost of the project was substantially less than the mortgage proceeds. Shelby claims the windfall was $1.7 million; FHA says it was $3.4 million; and our staff believes it to be about $2.5 million. The difference in these figures results wholly from different views as to the

propriety of including as costs of construction such items as payments to the sponsors themselves, entertainment, and travel expenses.

On completion of the buildings only the Parkchester group corporations were liable for the repayment of the mortgage debt. But the excess mortgage proceeds were in the hands of Shelby which was not liable for the mortgage debt. The 11 companies and Shelby then filed a consolidated income-tax return which avoided the payment of any income tax on the "windfall profits" by treating the transactions as intracompany dealings. Thus the windfall profits were transferred to Shelby, not liable for the debt, without the payment of income taxes. The property soon got into difficulties and was virtually abandoned by the Kapelow interests. Shelby sold its stock in those 11 companies to a group of New Yorkers for $5,000 cash and an additional $110,000 to be paid over a period of time (presumably out of rental income). The property has since defaulted and is now in the process of foreclosure by the Government.

Kapelow and Leader have had full use of these funds without paying taxes on that income. Shelby has never paid any dividends, and salaries to Kapelow and Leader have been modest, but very substantial sums have been loaned by the parties. At the inception of this project, Kapelow and Leader presented financial statements showing each was worth $300,000. They used these "windfall" funds to finance other projects and 4 years later their financial statement showed each to be worth $3½ million. Had normal income taxes been paid by these businessmen on the earnings of their labors it would not have been possible for them, after the payment of their taxes, to have accumulated that wealth in so short a period of time.

The Warner-Kanter Cos. in Cincinnati utilized the same device to have the benefits of the use of funds representing the profits of their venture without paying income taxes on those profits.

Saul Silberman

In many similar cases the promoters have loaned large sums of money to themselves, sometimes at no interest, sometimes at one-half of 1 percent interest, and sometimes at 1 percent interest. Since interest is itself a tax deduction, the payment of such interest on loans would not in a normal lifetime ever equal the capital gains taxes required to be paid on such profits. Saul Silberman, a former FHA employee, adopted this practice in Uplands Apartments, Inc. There was a $1 million "windfall" in that project which ended up in the construction corporation. By filing a consolidated income-tax return it paid no tax on that gain. The funds were then in part loaned, at minimum interest rates, to the promoters and more than $500,000 was advanced to rehabilitate a racetrack owned by Silberman.

In another case, a dentist turned builder, Dr. Dewey S. Gottlieb, used such tax-free funds to buy a string of racehorses and a cruiser on which to entertain jockeys.

In these cases the promoters have had every useful enjoyment of the windfalls resulting from their Government-financed projects, and the Government has received no taxes whatever on those "profits."

A third tax abuse, perhaps not limited to section 608 projects, was charging as construction costs expenditures not properly a part of the cost of construction. The only case in which the committee made any

attempt to audit the books of a sponsor was in the Woodner properties. General Accounting Office auditors found that Woodner had included as construction costs $87,000 in detective fees connected with his divorce litigation, about $50,000 in lawyers fees concerning his marital problems, the expense of a trip to Nassau to recuperate from the strain of those marital difficulties, and a number of other equally improper charges.

Morris Cafritz

The Cafritz Parklands Manor project illustrates still another income-tax device. Most fathers cherish the hope of being able to create an estate for their children. Paying normal income taxes on one's earnings, and gift taxes on funds given to children, makes this a rather difficult objective. Morris Cafritz, Washington, D. C., builder, found a solution to that problem. In the early 1940's Cafritz acquired a 100-acre tract of land in the southeast quadrant of the District of Columbia. In 1946 Cafritz transferred this land to Parklands, Inc. whose stock he held in trust for his three sons. The corporation had no liabilities and its only asset was the land. In a gift-tax return he valued the land at $69,000. Cafritz testified that the Internal Revenue Service subsequently raised the value of this land, he thought the increased valuation might have been $3,000 or $3,500 an acre but he was not certain.

The next step was for Parklands, Inc. to transfer 20 acres of the tract to a wholly owned subsidiary, Parklands Manor, Inc., which had nominal capital stock. Parklands Manor, Inc., then applied for and received an FHA insured mortgage under section 608 for $4.2 million. The land which had cost Cafritz $690 an acre was valued in this application at $20,000 an acre and was ultimately valued by FHA at $21,000 an acre.

Actual construction of the project was by Banks & Lee, Inc., Washington builders, although Cafritz himself was in the building business. The total construction costs of the project were $550,000 less than the mortgage proceeds.

Those "windfall profits" were then used to finance other real-estate projects owned in trust for the Cafritz children. The Parklands Manor, Inc. balance sheet for December 31, 1953, showed loans to such affiliated corporations, at one-half of 1 percent interest, in the amount of $630,000. Through this manner a shopping center, Parklands Shopping Center, Inc., and several other similarly owned housing projects have been constructed. Those properties have a cost of $7.2 million. Outstanding mortgages will at current rent levels be repaid from rental income. There will be no income taxes due the Federal Government on the rental income used to pay off the mortgages. In the absence of adverse economic conditions, the Cafritz children will ultimately own, free and clear, properties having a cost of $7.2 million and which were constructed out of a gift by Cafritz of land costing him $69,000. No gift taxes will be payable beyond those applicable to the gift of the land, and no income taxes will be paid except to the extent that rental income from the property exceeds all costs of operation including the repayment of the principal amount of the mortgage (payable out of depreciation funds).

Section B. Distribution by Time and Area of Section 608 Mortgages

The application of the rental housing program of FHA during different periods of its administration, and in different sections of the country, presents some interesting statistical information reflecting, at least indirectly, on the administration of the program.

New York, New Jersey, Maryland, and Virginia were the principal beneficiaries of the section 608 program. In proportion to their population, Illinois, Ohio, Michigan, and Massachusetts appear to have received the minimum number of new dwelling units from this program. A total of 465,000 new dwelling units were built in 7,045 projects under section 608 of the Housing Act. New York, with 9 percent of the population, received 18.4 percent of the units built under this program; New Jersey, with 3 percent population, received 11 percent of the units; Maryland, with 1.5 percent of the population, had 7.3 percent of the units; and Virginia, with 2 percent of the population, had 6.4 percent of the units. Most of the Virginia projects were in the northern part of the State in what is generally considered a part of the metropolitan area of the District of Columbia.

On the other hand, Ohio, with 5 percent of the population, received only 3.5 percent of the units built under section 608; Illinois, with 5.5 percent of the population, had 3.6 percent of the units; Michigan, with 4 percent of the population, received only 1.6 percent of the units; and Massachusetts, with almost 3 percent of the population, received only 0.7 percent of the units. Significantly, the committee found the greatest volume of "mortgaging out" and other irregularities in New York, New Jersey, Maryland, and to a lesser extent Virginia. And we found a minimum of these irregularities in Ohio, Illinois, Michigan, and Massachusetts. (This statement does not ignore that there were irregularities in those States to some extent, particularly Ohio and Michigan.)

Tables I and II, on pages 70 and 71; show graphically the percentages of mortgages insured under section 608 by States, in the years 1942 through 1953, based respectively on the percentage distribution of the total dwelling units and the percentage distribution of the total amount of mortgage.

Summary of Committee's Investigation of Section 608 Projects

This committee had neither time nor the staff facilities available to permit an inquiry into all the 7,045 projects financed with mortgage insurance under section 608 of the act. We sought to inquire, however, into all those projects in which information coming to the committee from any source indicated that there might be irregularities.

This committee inquired into over 600 section 608 projects in executive session. Of these public testimony was taken with respect to 543 projects. In 437 of these projects the mortgage proceeds exceeded 100 percent of all costs, while in the remaining 106 cases the costs exceeded the mortgage proceeds. In no case was the mortgage less than 90 percent of the actual costs.

The 437 projects scrutinized by the committee in public hearings in which the mortgages exceeded total costs involved mortgage proceeds totaling $590,118,276 (the face amount of the mortgage plus any

premiums received by the mortgagor and less any discounts paid by the mortgagor).

The mortgage proceeds in these 437 cases exceeded the total costs of the projects, including every disbursement to any person for anything, by $75,824,239. The total costs were thus 12.7 percent less than the mortgage proceeds. The statute provided for mortgages not to exceed 90 percent of the estimated costs and FHA mortgages were not more than 90 percent of its estimate of the cost of the project. On the average, therefore, the actual costs in these 437 cases were 21.6 percent less than the FHA Commissioner's estimated costs.

These figures are subject to possible correction in two respects: (1) The costs given are the builders own statements of their total costs. The very few cases in which we have checked costs lead to the conclusion that at least some builders padded their costs to some degree. Actual costs are undoubtedly lower, but the extent to which that was a prevalent practice and the amount by which such costs may have been padded is unknown to the committee. (2) In many, but by no means all, of these cases the sponsor was himself a builder and did not pay himself a builder's fee. In estimating costs FHA allowed a builder's fee of 5 percent even though the owner was himself the builder. This factor would reduce the spread between estimated costs and actual costs by something less than 5 percent. However, builders' fees were considered as a part of the equity to be furnished over and above the 90 percent Government-insured mortgage. A builder's fee could cover part of the estimated cost between the 90 percent mortgage and 100 percent of the estimated cost. As shown above, however, the mortgage proceeds in these cases averaged 12.7 percent in excess of all costs in these projects.

The 106 cases in which the mortgage proceeds were less than total costs, involved mortgage proceeds of $148,422,451. The total costs in excess of those mortgage proceeds were $6,876,645, or but 4.6 percent of the mortgages. Averaging the entire 543 cases, the total mortgage proceeds of $738,540,727 were 9.3 percent in excess of total costs. On the average, the actual costs in these 543 cases were 18.4 percent less than the FHA Commissioner estimated costs.

Table III on page 75 shows by States the number of projects, mortgage proceeds, and excess or deficiency of mortgage proceeds over costs, for the projects inquired into by the committee. Table IV on page 77 breaks down the excess of mortgage proceeds over total costs by years.

TIME DISTRIBUTION OF WINDFALLS

The 437 projects inquired into by the committee showed total windfalls, the excess of mortgage proceeds over all costs, in 1946 of only $12,523 in 1947 of $525,616, and in 1948 $2,166,369. In 1949 these windfalls jumped to $18,774,176 and were in excess of $20 million in each of the years 1950 and 1951. These windfalls were almost $10 million in 1952, and in excess of $3 million in 1953. The section 608 program ended in 1950. The years stated are those in which the projects were completed and the costs became known.

Significantly, in the period of the greatest housing need, 1946 through 1948, there were the smallest windfalls. The largest windfalls occurred after Congress had found that the program could be terminated, in 1950 through 1952. One factor accounting for the increase

in windfalls in the later years is that there appears to have been a decline in material prices, following the postwar shortage of materials, of which FHA was apparently not cognizant. Many builders were apparently able to purchase materials at substantially lower costs than those used by FHA in computing their estimates of cost. But the Congress had provided by the 1947 amendment to the Housing Act that all FHA estimates should be as close as possible to the "actual costs of efficient building operations."

MORTGAGE DEFAULTS

On May 31, 1954 the FHA was the owner of 137 projects with 7,336 mortgage units which it was required to take over because of defaults by the mortgagors. And by that date it had been compelled to acquire mortgage notes from the holders of an additional 113 projects with 8,644 units because of defaults by the mortgagors. The mortgages in these 250 projects originally totaled $117 million, and the Commissioner's present investment in those projects is $114.8 million. In addition the FHA had taken over an additional 41 projects with 2,870 rental units which it had been able to sell by May 31, 1954. The Commissioner's investment in these 41 projects was $13,971,829. The total sales price was $13,018,941, resulting in a loss to the Government on those 41 projects of $952,888. This loss is approximately 7 percent of the face amount of those mortgages. It is not possible to estimate the FHA total loss on the remaining projects because it is not possible to know the price at which they can be sold. FHA has estimated that one $3.9 million mortgage on a project in nearby Virginia (Lewis Gardens), on which the sponsor had a $970,000 windfall, will result in a loss to the FHA of between $700,000 and $2 million.

Most of the mortgages insured by FHA under the section 608 program have more than 25 years to run to maturity. The extent to which those properties may be adequate security for the mortgages will depend in large part on the extent to which the owners maintain the properties. This is a matter over which FHA has but little effective control. It is just not possible to forecast what may be the Government's ultimate liability on these mortgages except to say that it is potentially a substantial liability.

There are now outstanding mortgages under the section 608 program with unpaid balances of $3,014,076,394. The potential liability of the Government as guarantor of those mortgages may be seriously affected by the fact that in a great many cases the owner of the property has no investment in the project. Some projects were apparently built with the view to making a quick profit from the mortgage proceeds, and not with the view to obtaining long-term rental income.

It is likely that some of these projects will just not last the 30 years over which the mortgage is payable. Many of the projects in which the owner has the smallest investment are large properties with in excess of 1,000 and 2,000 apartments. There is the dangerous possibility that some of these properties may ultimately become slum areas. When the owner of property has made no investment, and his objective is to obtain the greatest short-term gain from the property without regard to the long-term maintenance and preservation of a property, those conditions exist that frequently result in creating slums.

Table V, on page 79, shows the number of projects, the amount of the mortgages, and the Government's investment, by States, in those defaulted projects.

The largest number of defaults occurred in Louisiana in spite of the fact that only 1.5 percent of the total number of mortgages issued under section 608 were in that State. Forty projects with 2,279 units and mortgages of $19 million defaulted in Louisiana. This is more than 30 percent of the total number of units constructed in Louisiana under section 608, and more than 35 percent of the dollar amount of the mortgage commitments issued in Louisiana. To date the Commissioner has sold but one of the projects taken over in Louisiana.

In the public hearings at New Orleans, the local FHA officials were asked to account for this high ratio of defaults. Their explanation was that multifamily housing units were forced upon the community, by FHA in Washington, and that the community was not ready to accept and did not want that type of dwelling unit. They told the committee that traditionally people in that area had lived in single-family homes, duplexes, and quadruplexes. The people did not want multifamily residential units and many of the projects taken over by the Government on default had an occupancy of less than 25 percent. Over the years that the Government has managed those properties it has slowly built up occupancy to a satisfactory level.

An even larger number of defaults, but involving total mortgages in a smaller dollar amount, occurred in Florida. Forty-three mortgages covering 2,330 units and with FHA mortgages of $16.2 million have defaulted in Florida. This is 22.7 percent of the mortgages issued in Florida.

Other States in which there have been substantial defaults are: Virginia, South Carolina, Oklahoma, and Arkansas. New York, which had 20.9 percent of the total dollar amount of mortgages issued under the section 608 program, has had only 8 defaults on mortgages of $9.5 million.

The tables referred to above follow:

TABLE I

PROJECT MORTGAGES INSURED UNDER SECTION 608, BY STATES 1942 THROUGH 1953

PERCENTAGE DISTRIBUTION BASED ON NUMBER OF DWELLING UNITS

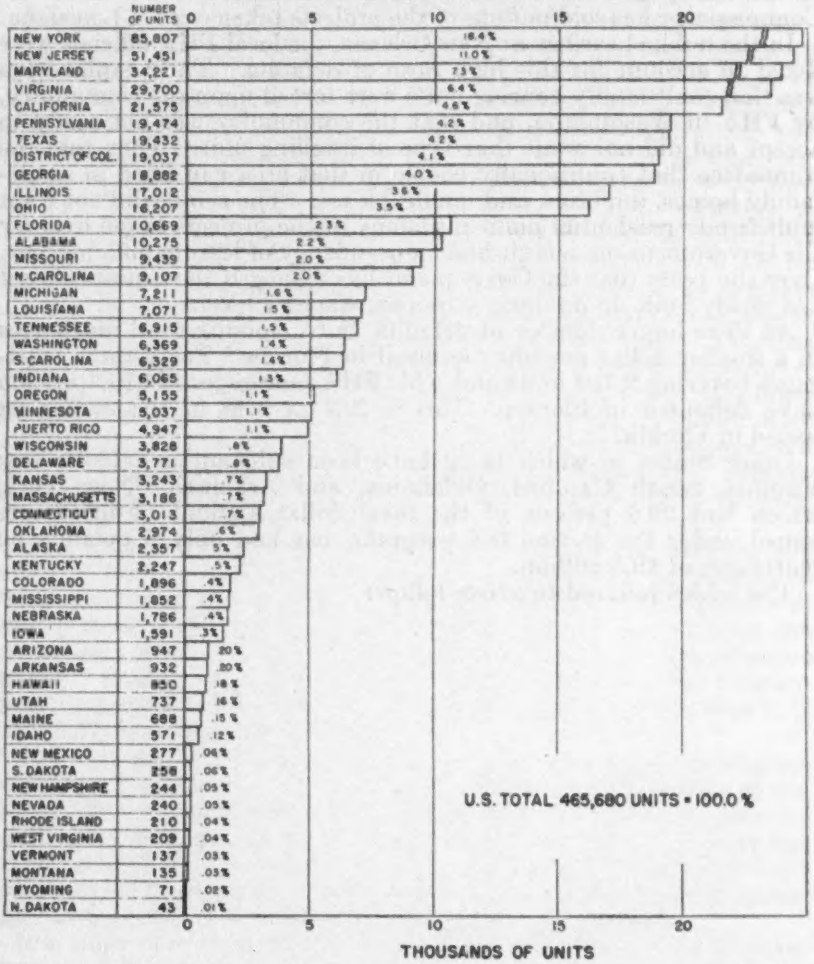


TABLE II

PROJECT MORTGAGES INSURED UNDER SECTION 608, BY STATES 1942 THROUGH 1953

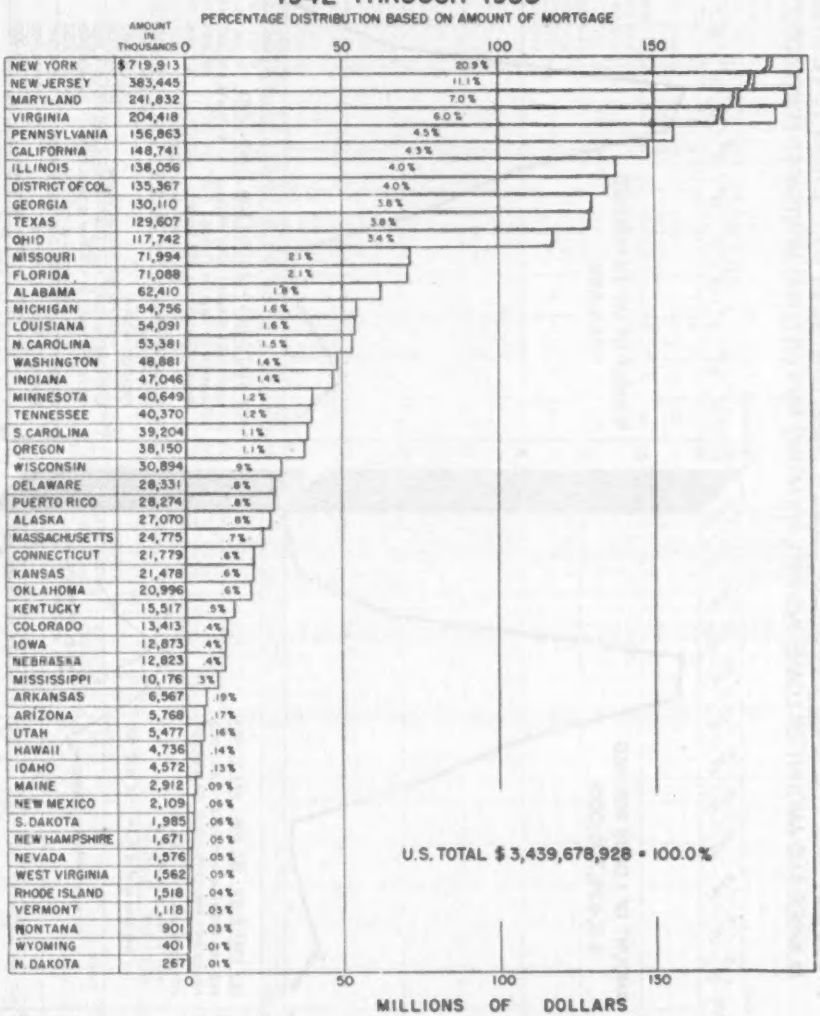
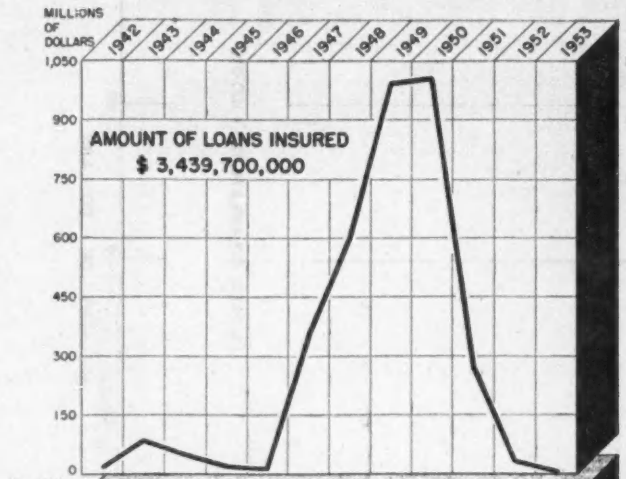
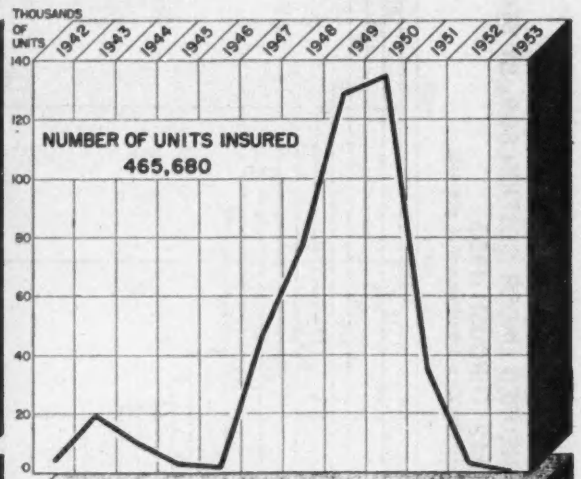


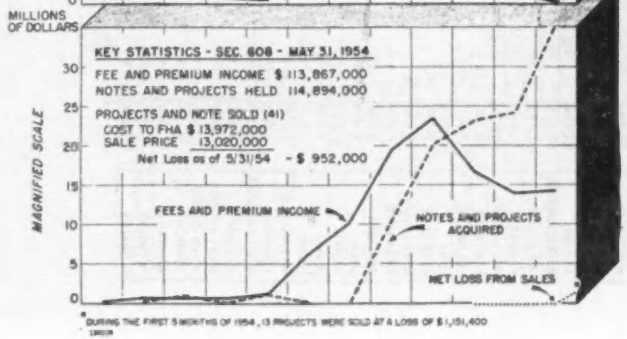
TABLE II-A

PROJECT MORTGAGES INSURED UNDER SECTION 608, BY YEARS 1942-1953

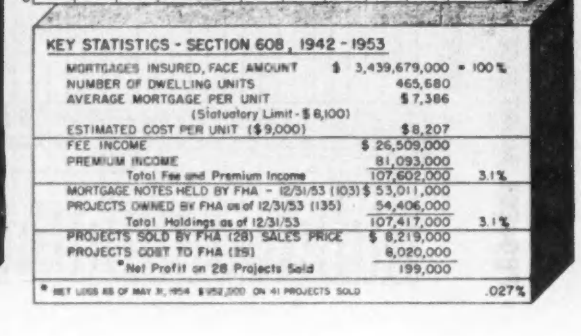
NUMBER AND AMOUNT OF LOANS INSURED, PREMIUMS RECEIVED AND MORTGAGES FORECLOSED







* DURING THE FIRST 5 MONTHS OF 1954, 13 PROJECTS WERE SOLD AT A LOSS OF $1,151,400



KEY STATISTICS - SECTION 608, 1942 - 1953

MORTGAGES INSURED, FACE AMOUNT	$ 3,439,679,000	= 100 %
NUMBER OF DWELLING UNITS	465,680	
AVERAGE MORTGAGE PER UNIT (Statuatory Limit - $ 6,100)	$ 7,386	
ESTIMATED COST PER UNIT ($ 9,000)	$ 8,207	
FEE INCOME	$ 26,509,000	
PREMIUM INCOME	81,093,000	
Total Fee and Premium Income	107,602,000	3.1 %
MORTGAGE NOTES HELD BY FHA - 12/31/53 (103)	$ 53,011,000	
PROJECTS OWNED BY FHA as of 12/31/53 (135)	54,406,000	
Total Holdings as of 12/31/53	107,417,000	3.1 %
PROJECTS SOLD BY FHA (28) SALES PRICE	$ 8,219,000	
PROJECTS COST TO FHA (28)	8,020,000	
*Net Profit on 28 Projects Sold	199,000	
* NET LOSS AS OF MAY 31, 1954 $ 952,000 ON 41 PROJECTS SOLD		.027 %

TABLE II–B.—*Project mortgages insured under section 608, by States, 1942 through 1953—dollar amount of mortgage distributed by years*

Code	State	Number of projects	Number of units	Total mortgage insurance written	1942 to 1946, inclusive	1947	1948	1949	1950	1951	1952 and 1953
01	Alabama	205	10,275	$62,410,418	$1,091,000	$9,105,200	$15,992,100	$15,843,300	$14,771,429	$5,601,889	$5,500
02	Arizona	37	947	5,768,712	831,700	959,750	3,113,850	103,814	759,598		
03	Arkansas	48	932	6,567,000		4,425,700	963,300	486,000	692,000		
04	California	908	21,575	148,741,767	5,683,562	4,245,400	58,431,812	56,282,345	19,265,113	4,630,348	203,187
05	Colorado	60	1,896	13,413,144	1,993,500	2,102,300	606,100	351,900	8,359,344		
06	Connecticut	45	3,013	21,779,200	4,373,900	4,179,800	5,336,100	4,317,000	2,329,000	1,243,400	
07	Delaware	15	3,771	28,331,277		2,495,400	4,021,400	11,590,000	9,654,200		570,277
08	District of Columbia	170	19,037	135,367,466	24,496,149	8,075,400	11,529,500	66,249,000	13,163,400	10,431,251	1,422,766
09	Florida	317	10,669	71,088,800	136,500	17,528,800	27,594,300	20,419,500	5,119,300	290,400	
10	Georgia	157	18,882	130,110,030	2,998,700	12,375,700	22,776,000	40,285,900	40,182,200	10,971,322	520,208
12	Idaho	8	571	4,572,600		2,458,800	1,046,500	707,300	345,800	14,200	
13	Illinois	269	17,012	138,056,106	9,125,500	33,913,200	10,818,648	13,931,197	41,906,290	21,692,465	6,668,806
15	Indiana	103	6,065	47,046,792	273,900	7,145,100	3,105,292	15,303,700	19,308,300	1,910,500	
16	Iowa	27	1,591	12,873,300			76,500	3,626,700	8,904,200	265,900	
18	Kansas	68	3,243	21,478,957	2,224,400	2,392,600	3,169,300	4,739,318	7,547,439	1,405,900	
20	Kentucky	80	2,247	15,517,956	440,900	6,608,156	2,774,400	2,512,500	3,182,000		
22	Louisiana	82	7,071	54,091,017	4,827,100	673,400	14,709,100	11,667,300	14,191,900	8,011,178	11,039
23	Maine	14	688	2,912,661	2,700,661	120,000			92,000		
24	Maryland	280	34,221	241,832,724	25,698,000	30,011,700	60,370,500	85,249,000	37,107,243	3,396,281	
25	Massachusetts	36	3,186	24,775,818	2,966,900	5,212,900	6,841,300	6,001,500	3,728,518	24,700	
26	Michigan	229	7,211	54,756,794	3,270,324	6,702,900	10,034,753	16,217,000	14,713,327	3,740,679	77,811
27	Minnesota	144	5,037	40,649,199		689,400	1,041,070	16,214,679	17,849,450	4,828,600	26,000
28	Mississippi	40	1,852	10,176,200		95,400	964,600	5,811,900	2,447,900	856,400	
29	Missouri	128	9,439	71,994,204	3,026,000	846,400	10,215,400	10,745,445	32,002,228	15,158,731	
31	Montana	3	135	901,200			90,000		805,000	6,200	
32	Nebraska	51	1,786	12,823,580	236,600	33,000	1,779,800	5,021,383	4,551,397	1,201,400	
33	Nevada	13	240	1,576,500			1,039,300		537,200		
34	New Hampshire	7	244	1,671,840			101,400	1,395,853	174,587		
35	New Jersey	510	51,451	383,445,402	20,579,087	55,253,700	76,913,750	99,625,600	85,252,632	32,945,198	12,875,435
36	New Mexico	11	277	2,109,978				571,300	810,200	728,478	
37	New York	736	85,807	719,913,566	5,365,600	41,450,500	100,129,400	214,264,797	282,550,300	71,115,696	5,037,273
38	North Carolina	86	9,107	53,381,898	3,126,900	4,621,300	6,102,400	23,502,183	16,017,600		11,515
40	North Dakota	3	43	267,552			45,000	125,552		97,000	
41	Ohio	272	16,207	117,742,671	13,372,389	10,067,400	5,783,070	14,126,121	37,328,754	37,059,309	5,628
42	Oklahoma	110	2,974	20,996,442	123,700	5,606,400	9,521,500	3,006,100	2,615,550	123,192	
43	Oregon	138	5,155	38,150,132	4,150,941	3,487,900	10,863,900	7,240,500	11,259,722	1,123,000	24,169
44	Pennsylvania	343	19,474	156,863,728	871,600	8,427,100	24,621,350	57,382,034	58,551,135	7,010,509	
45	Rhode Island	6	210	1,518,900			738,000	684,800	96,100		
46	South Carolina	85	6,329	39,204,767		1,399,100	4,636,000	17,865,000	14,121,400	762,447	420,820
47	South Dakota	8	258	1,985,000			541,100	231,900	1,212,000		
48	Tennessee	115	6,915	40,370,159		120,200	4,522,500	9,091,800	23,641,959	2,993,700	
49	Texas	377	19,432	129,607,415	3,734,709	9,757,800	25,065,317	38,517,989	42,493,300	9,963,100	75,200
52	Utah	18	737	5,477,895	743,600	481,700		929,600	2,535,695	787,300	

TABLE II–B.—*Project mortgages insured under section 608, by States, 1942 through 1953—dollar amount of mortgage distributed by years*—Con.

Code	State	Number of projects	Number of units	Total mortgage insurance written	1942 to 1946, inclusive	1947	1948	1949	1950	1951	1952 and 1953
53	Vermont	4	137	$1,118,200				$700,000	$260,800	$100,000	$57,400
54	Virginia	301	29,700	204,418,669	$25,546,500	$37,572,300	$37,672,200	69,588,000	33,178,255	556,600	304,814
56	Washington	111	6,369	48,881,972	619,300	11,934,400	14,808,787	10,885,948	9,023,407	1,610,130	
57	West Virginia	12	209	1,562,000				224,800	939,500	374,000	23,700
58	Wisconsin	156	3,828	30,894,284	82,700	6,129,700	2,161,485	4,098,346	17,351,885	1,070,168	
59	Wyoming	5	71	401,125	224,400		50,400	126,325			
60	Alaska	19	2,357	27,070,611				8,401,400	16,361,900	2,076,900	230,411
70	Hawaii	51	850	4,736,700		1,206,300	3,144,300	325,600	60,500		
80	Puerto Rico	25	4,947	28,274,600					28,274,600		
81	Canal Zone										
82	Virgin Islands										
	United States total	7,046	465,680	3,439,678,928	174,936,722	359,912,206	605,862,784	996,589,229	1,007,627,557	266,178,471	28,571,959

TABLE III.—*Summary of section 608 projects investigated on which data were available*

Code	State	Total projects (1)	Number in which there was a windfall (2)	Number in which there was no windfall (3)	Total mortgage proceeds (4)	Total mortgage proceeds where there was a windfall (5)	Total mortgage proceeds where there was no windfall (6)	Excess of mortgage proceeds (col. 5) over total costs (7)	Excess of total costs over mortgage proceeds (col. 6) (8)
01	Alabama	7	6	1	$3,544,298	$2,322,803	$1,221,595	$188,560	$3,377
02	Arizona								
03	Arkansas								
04	California	91	90	1	22,615,200	20,000,200	2,615,000	780,117	12,000
05	Colorado								
06	Connecticut								
07	Delaware	5	5		7,974,400	7,974,400		530,283	
08	District of Columbia	29	17	12	38,896,266	24,626,616	14,269,650	2,545,968	1,685,654
09	Florida								
10	Georgia	1	1		1,402,000	1,402,000		301,710	
12	Idaho								
13	Illinois	2		2	6,354,100		6,354,100		741,338
15	Indiana	18	18		21,889,848	21,889,848		839,208	
16	Iowa								
18	Kansas	2	2		1,887,500	1,887,500		304,189	
20	Kentucky	2	2		2,419,200	2,419,200		198,700	
22	Louisiana	14	14		22,779,200	22,779,200		2,129,304	
23	Maine								
24	Maryland	22	21	1	41,043,200	39,507,400	1,535,800	4,397,273	15,049
25	Massachusetts								
26	Michigan								
27	Minnesota								
28	Mississippi	8	8		1,741,600	1,741,600		212,311	
29	Missouri	6	2	4	18,755,108	7,426,757	11,328,351	405,238	442,000
31	Montana								
32	Nebraska								
33	Nevada								
34	New Hampshire								
35	New Jersey	76	60	16	92,169,429	70,476,837	21,692,592	7,326,593	1,641,259
36	New Mexico								
37	New York	155	145	10	322,784,187	306,399,024	16,385,163	46,108,219	913,033
38	North Carolina								
40	North Dakota								
41	Ohio	12	7	5	28,681,782	18,952,482	9,729,300	2,966,963	487,477
42	Oklahoma								
43	Oregon								
44	Pennsylvania								
45	Rhode Island								
46	South Carolina								
47	South Dakota								

TABLE III.—*Summary of section 608 projects investigated on which data were available*—Continued

Code	State	Total projects (1)	Number in which there was a windfall (2)	Number in which there was no windfall (3)	Total mortgage proceeds (4)	Total mortgage proceeds where there was a windfall (5)	Total mortgage proceeds where there was no windfall (6)	Excess of mortgage proceeds (col. 5) over total costs (7)	Excess of total costs over mortgage proceeds (col. 6) (8)
48	Tennessee							$1,380,146	
49	Texas	6	6		$6,738,520	$6,738,520			
52	Utah								
53	Vermont								
54	Virginia	33	33		33,573,889	33,573,889		5,209,457	
56	Washington								
57	West Virginia								
58	Wisconsin								
59	Wyoming								
60	Alaska								
70	Hawaii								
80	Puerto Rico								
81	Canal Zone								
82	Virgin Islands								
	Not distributed by States	54		54	63,290,900		$63,290,900		$935,456
	United States total	543	437	106	738,540,727	590,118,276	148,422,451	75,824,239	6,876,645

TABLE IV.—*Summary of section 608 projects investigated on which total mortgage proceeds exceeded total costs—excess mortgage proceeds distributed by years*

Code	State	Number of projects	Number of units	Total mortgage proceeds	Excess of mortgage proceeds over total costs	1944–45	1946	1947	1948	1949	1950	1951	1952	1953
01	Alabama	6	353	$2,322,803	$188,560					$29,672	$155,317	$3,571		
02	Arizona													
03	Arkansas													
04	California	90	2,284	20,000,200	780,117				$121,240	289,023	227,154	142,700		
05	Colorado													
06	Connecticut													
07	Delaware	5	978	7,974,400	530,283							530,283		
08	District of Columbia	17	3,226	24,626,616	2,545,968		$12,523		40,523	554,622	996,300		$942,000	
09	Florida													
10	Georgia	1	220	1,402,000	301,710						301,710			
12	Idaho													
13	Illinois													
15	Indiana	18	2,569	21,889,848	839,208					161,548	157,765	363,483	156,412	
16	Iowa													
18	Kansas	2	302	1,887,500	304,189						202,433	101,756		
20	Kentucky	2	316	2,419,200	198,700							198,700		
22	Louisiana	14	2,571	22,779,200	2,129,304					1,746,188		97,116	286,000	
23	Maine													
24	Maryland	21	5,108	39,507,400	4,397,273					817,096	2,379,049	941,748	259,380	
25	Massachusetts													
26	Michigan													
27	Minnesota													
28	Mississippi	8	250	1,741,600	212,311						212,311			
29	Missouri	2	844	7,426,757	405,238								288,617	$116,621
31	Montana													
32	Nebraska													
33	Nevada													
34	New Hampshire													
35	New Jersey	60	9,826	70,476,837	7,326,593			$525,616		1,761,111	1,527,586	2,847,194	486,250	178,836
36	New Mexico													
37	New York	145	34,477	306,399,024	46,108,219				1,567,158	12,307,065	9,538,860	15,835,253	5,309,677	1,550,206
38	North Carolina													
40	North Dakota													
41	Ohio	7	2,602	18,952,482	2,966,963							283,850	1,416,600	1,266,513
42	Oklahoma													
43	Oregon													
44	Pennsylvania													
45	Rhode Island													
46	South Carolina													
47	South Dakota													
48	Tennessee													

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TABLE IV.—*Summary of section 608 projects investigated on which total mortgage proceeds exceeded total costs—excess mortgage proceeds distributedby years*—Continued

Code	State	Number of projects	Number of units	Total mortgage proceeds	Excess of mortgage proceeds over total costs	1944–45	1946	1947	1948	1949	1950	1951	1952	1953
49	Texas	6	1,242	$6,738,520	$1,380,146					$185,520	$811,052	$383,574		
52	Utah													
53	Vermont													
54	Virginia	33	4,884	33,573,889	5,209,457	$155,700			$437,448	922,331	3,693,978			
56	Washington													
57	West Virginia													
58	Wisconsin													
59	Wyoming													
60	Alaska													
70	Hawaii													
80	Puerto Rico													
81	Canal Zone													
82	Virgin Islands													
	United States total	437	72,052	590,118,276	75,834,239	155,700	$12,523	$525,616	2,166,369	18,774,176	20,203,515	21,729,226	$9,144,936	$3,112,176

TABLE V.—*Disposition of section 608 projects in default*

Code	State	Commissioner-owned projects					Mortgage notes assigned to Commissioner					Projects sold at May 31, 1954					Net profit or (loss)
		Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Cost of projects sold	Total sales price	
01	Alabama	7	122	$719,100	$678,119	$697,066	1	96	$692,000	$676,329	$598,405	2	128	$750,900	$737,433	$715,775	($21,658)
02	Arizona	1	99	671,500	691,086	706,370	4	72	523,000	513,556	454,723						
03	Arkansas	11	194	1,511,000	1,490,223	1,471,149	3	44	310,000	284,017	286,699	4	76	568,000	567,914	481,111	(86,803)
04	California						20	527	3,554,973	3,399,736	3,060,463	10	208	1,504,822	1,419,970	1,423,000	3,030
05	Colorado																
06	Connecticut																
07	Delaware																
08	District of Columbia											1	594	1,140,505	925,271	936,000	10,729
09	Florida	24	1,140	7,968,300	7,875,249	8,072,970	19	1,190	8,227,700	7,880,963	7,871,361	3	48	368,900	394,123	395,621	1,498
10	Georgia	3	224	1,648,600	1,597,502	1,518,778	2	308	2,641,000	2,593,785	2,475,849	1	44	255,000	235,627	203,700	(31,927)
12	Idaho	1	104	831,600	809,556	914,274	2	302	2,473,700	2,419,068	2,457,174						
13	Illinois						1	48	415,700	386,654	404,390						
15	Indiana																
16	Iowa																
18	Kansas	1	116	899,600	881,815	857,681	4	200	1,681,944	1,555,643	1,510,749	3	57	423,400	414,068	441,250	27,182
20	Kentucky																
22	Louisiana	31	1,100	8,713,500	8,661,878	8,886,984	9	1,179	10,327,200	9,968,841	9,930,816	1	28	199,900	215,081	200,045	(15,036)
23	Maine											5	179	810,000	879,706	865,000	(14,706)
24	Maryland						5	561	3,624,400	3,421,767	3,488,047						
25	Massachusetts											2	157	1,200,000	1,226,894	792,015	(434,879)
26	Michigan																
27	Minnesota																
28	Mississippi	4	383	2,156,700	2,105,611	2,033,676											
29	Missouri																
31	Montana																
32	Nebraska																
33	Nevada																
34	New Hampshire	1	164	1,252,900	1,290,039	1,292,983											
35	New Jersey	4	198	1,611,772	1,563,034	1,573,218	9	812	6,729,400	6,463,222	6,434,558						
36	New Mexico																
37	New York	5	668	5,738,500	5,894,247	5,948,046	3	455	3,784,000	3,646,456	3,685,159	1	42	170,000	179,193	168,624	(10,569)
38	North Carolina	2	48	356,300	330,223	347,140	2	100	902,600	858,802	824,328	1	500	1,670,000	1,832,675	1,870,100	37,425
40	North Dakota																
41	Ohio											2	24	13,039	11,233	16,000	4,767
42	Oklahoma	9	162	1,196,000	1,160,293	1,200,477	4	220	1,880,000	1,764,532	1,692,019	2	252	1,913,000	1,822,225	1,179,000	(643,225)
43	Oregon																
44	Pennsylvania						1	24	176,932	167,648	160,222						

TABLE V.—*Disposition of section 608 projects in default*—Continued

Code	State	Commissioner-owned projects					Mortgage notes assigned to Commissioner					Projects sold at May 31, 1954					Net profit or (loss)
		Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Cost of projects sold	Total sales price	
45	Rhode Island																
46	South Carolina	11	580	$3,559,989	$3,566,283	$3,607,669	8	471	$2,906,853	$2,814,681	$2,930,726						
47	South Dakota																
48	Tennessee	1	24	188,500	173,098	173,915											
49	Texas	6	258	1,513,800	1,458,019	1,460,908	5	184	1,192,100	1,108,844	1,128,189						
52	Utah																
53	Vermont																
54	Virginia	14	1,208	8,922,468	8,802,695	8,719,351	2	228	1,806,084	1,783,093	1,588,424	3	533	$3,110,200	$3,110,416	$3,331,700	$221,284
56	Washington	1	544	4,143,600	4,104,084	4,358,085											
57	West Virginia																
58	Wisconsin																
59	Wyoming																
60	Alaska						1	37	439,500	426,971	442,633						
70	Hawaii																
80	Puerto Rico						8	1,586	9,446,200	9,233,278	9,627,290						
81	Canal Zone																
82	Virgin Islands																
	United States total	137	7,336	53,605,729	53,133,054	53,841,340	113	8,644	63,735,286	61,367,586	61,052,224	41	2,870	14,097,666	13,971,829	13,018,941	(952,888)

Section C. The Military Housing Program

Section 803 of the National Housing Act, commonly known as the Wherry Act, relates to Government financing of multifamily residential units at military installations. Mortgages amounting to $596.2 million on 236 projects containing 74,085 units have been insured under this section of the act. It is substantially like the provisions of section 608 and was continued after the expiration of section 608 to encourage still badly needed rental housing for military personnel. This program differs from the section 608 program primarily in that a certificate is required from the military before the FHA can issue its mortgage commitment. The military approves, and in many instances initially drafts, the plans and specifications for these projects. The jurisdiction of FHA is limited largely to reviewing the judgment of the military before issuing its commitment.

Virtually all of the projects built under this program are on Government-owned land and leased at nominal rentals under long-term leases. The early projects under this program were generally on a negotiated basis. The most recent projects have been awarded upon competitive bidding, but we find that the award has not always gone to the low bidder.

Most of the abuses inherent in the section 608 program have also been found in the military housing program. Effective June 30, 1953, the Congress amended the act to require cost certification on completion of the project and a reduction of the mortgage by the amount in excess of 100 percent of the costs. One builder has testified before us that he did not regard this provision applicable to commitments issued prior to June 30, 1953, and that he intended to "mortgage out" on a project now under construction. Of course, on completion of the project the Commissioner does not have to endorse the mortgage (without which the Government guaranty is not effective) unless satisfied that there has been full compliance with the statute.

Section D. Lawyers Appearing Before the Committee

The conduct of some of the attorneys appearing before this committee has not been conducive to that standard of truth and justice which the lawyers have and must advocate. Specific reference is made to the following:

Arthur M. Chaite was formerly an attorney for the Federal Housing Administration. In recent years he represented the Ian Woodner interests which were involved before the Federal Housing Administration in projects with almost $50 million of mortgages. Chaite was one of five former FHA people employed by Woodner. He testified that he had received fees totaling $66,000 from the Woodner interests. But an examination of canceled checks of the Woodner Co. disclosed canceled checks, either payable to the order of Chaite or payable to cash and endorsed by Chaite, in amounts exceeding $155,000. When confronted with these checks Chaite identified an additional $10,000 of checks bearing his endorsement which he said were reimbursement for travel and other similar expenses and which were not reflected on his books. He also identified a check for $25,000 which he said was given to him as agent to purchase real estate for Woodner.

There remained, however, checks aggregating more than $50,000 which Chaite was unable to explain. Some of these checks were payable to cash, but most of them named Chaite as the payee. As to each check Chaite identified his signature as endorser of the check. In most cases the check had been cashed at the bank and currency delivered to the payee by the bank. Many of the checks were for exactly $5,000 each.

Although identifying his signature on each check, Chaite said under oath that he had no recollection of whether he ever received the proceeds of any of those checks, who had received the proceeds of each of those checks, or the purposes for which any of the checks had been issued. His books do not reflect his receipt of the proceeds of any of those checks.

Chaite had been employed at FHA during a period of time in which Clyde L. Powell was Assistant Commissioner in charge of projects such as those in which the Woodner interests were involved. Powell's sometimes mysterious activities are discussed elsewhere in this report. The records of the Wardman Park Hotel, where Powell lived, show a number of telephone calls from Powell's apartment to the home of Chaite, five of which were in 1953. When interrogated about these calls Chaite stated under oath that he could not recall whether Powell had ever telephoned him at his home or what any such call might have been about. It may be that Chaite merely has an extremely poor memory, but it does not appear that this member of the bar contributed to this committee's search for truth and justice. It seems reasonable to assume that Chaite must have known more about that $50,000 than he was willing to tell this committee.

George I. Marcus, an attorney from Hackensack, N. J., appeared before this committee as attorney for Sidney Sarner, a builder. Marcus approached the witness table with a bitter denunciation of this committee for revealing to the press testimony given by Sarner in executive session. He belligerently attacked the committee for newspaper articles written about his client. An examination of the newspaper articles showed on their face that they referred wholly to a statement released to the press by the Administrator of the Housing and Home Finance Agency, and that they did not refer to any information emanating from this committee.

Marcus refused to permit his client to testify unless he was first permitted to make a statement.

The culmination of Marcus' attack on this committee came when he accused the chairman of this committee of "shooting off his mouth" about supposedly innocent builders. Following this tirade Marcus' client, Sarner, took refuge behind the fifth amendment when interrogated about the rental housing project of which he had been the principal owner and with respect to which Marcus had been his attorney and adviser from the inception. Marcus was then asked questions about the executive session, to which he repeatedly replied, "I refuse to answer."

The committee later learned that Marcus was himself the sponsor of several section 608 projects.

Daniel B. Maher, an attorney in the District of Columbia, accompanied Clyde L. Powell in his three appearances before this committee. At the April 19, 1954 hearing, the first question asked Powell was, "How long have you been with the FHA?" He refused to answer the

question on the constitutional privilege against self-incrimination of the fifth amendment. The chairman then said:

> The witness does not have to answer unless he cares to. We certainly are not going to force you to do so. I will say this, that we were hopeful that you would be able to assist us * * *.

No further questions were asked of Powell and no criticism of his failure to testify was made.

On leaving the hearing room Maher released to the press a statement, apparently prepared in advance of his appearance, that was in part as follows:

> Mr. Powell has been further advised [presumably by Maher] that the only legal basis upon which the Houses of Congress may exert investigatory power is in the aid of the legislative function. That further, this power has been shamefully abused, and is now being abused, by certain congressional committees. He has been further told that congressional committees, instead of confining themselves to their proper function, have in effect constituted themselves as the grand inquest of the Nation, acting as informers, witnesses, prosecutors, judges, and juries; all of this under the guise of exercising a legislative function.
>
> Mr. Powell has been further advised that, in certain instances of unrestrained congressional inquiry, the reputations of honorable men have been destroyed; and that such men are without any legal redress whatsoever because of the absolute privileges of immunity from suit for slander which attaches to Members of Congress and witnesses before congressional committees. He has been further advised that to one like himself, who values his reputation, the injury from slanderous statements and unjust accusations, to which one appearing before a congressional committee is subjected, is immeasurably more disastrous than any punishment available to the Government when imposed by a court.
>
> Mr. Powell has been further advised that the only right which he may successfully invoke before this committee is the right to refuse to testify against himself. That being his only recourse, he has been advised to invoke it.

Protestations about Powell's innocence and his reputation should be read in the light of the disclosures about his conduct recited under "Integrity of FHA employees."

On June 29, 1954, Powell again appeared before the committee accompanied by Maher. He was asked to explain the procedures for FHA commitments under section 608; he was asked whether he had intervened in certain specific projects for the benefit of certain named builders; and he was asked about his alleged criminal record. As to each question he refused to answer under the fifth amendment. The chairman then put into the record a report by the Federal Bureau of Investigation on Powell's arrest record. Powell similarly declined to answer questions with respect to that FBI report.

At the conclusion of that hearing Maher said:

> That on the occasion I originally appeared before this committee, and again today, may I state this in simple candor to each member of the committee, that I have appeared before many congressional committees, and never have I been treated with greater courtesy than I have before the Banking and Currency Committee.

Nevertheless, on July 14, 1954, Maher filed a petition with the Secretary of the Senate asking that Congress—

> expel such members who have violated their oaths * * * by committing the acts heretofore set forth above.

The acts therein set forth included detailed reference to disclosure of the FBI arrest record of Powell. The petition, signed by Maher and not by Powell, contained an affidavit by Maher that he merely "verily *believed* the statements therein to be true." The petition therefore cannot be said to be a sworn petition. The petition denied

many allegations in the FBI arrest record of Powell, but with every opportunity to do so Powell has refused to challenge *under oath* any statement in the FBI record.

It has been common practice for generations to include in the record of congressional hearings reports such as an FBI record. For many purposes such governmental reports are even considered by courts of law where the rules of evidence are more severe than before congressional committees. Yet Maher's petition accused members of this committee of violating their oaths, in the conduct of the committee's investigation with respect to Powell, and specifically asked that members, presumably meaning the chairman, be expelled from the Senate for including in this record that FBI report on Powell; although Powell has not contradicted or disputed its statements.

Samuel E. Neel is general counsel of the Mortgage Bankers Association. This association includes among its members a large portion of the Nation's mortgage bankers who finance residential construction. During the course of its investigation of section 608 projects, on June 17, 1954, the Federal Housing Administration sent a questionnaire to each sponsor of such a project asking detailed information about the project, particularly the actual costs of construction.

On June 24, 1954, Neel sent a memorandum to every member of the Mortgage Bankers Association the obvious purpose of which was to suggest that the recipients of that questionnaire refuse to furnish the Government with information as to the cost of his Government-financed project. Attached to Neel's memorandum was a letter which he said one member of that association had transmitted to FHA, refusing to answer the FHA questionnaire. And Neel suggested that others might care to follow a similar course. He has admitted also being one of the authors of that letter. The memorandum and the accompanying letter are printed in the hearings of the investigation at page 3498.

Neel testified before the committee that neither the association nor any officer of the association had asked him to advise the membership whether they should, or were required to, answer the FHA questionnaire.

It is understandable how a lawyer, when asked for advice by his client, might reach the conclusion that it was in the best interests of that client not to furnish the Government with information it had requested. In this case, however, an attorney for a trade association of mortgage bankers, only one of whose members had presumably consulted the lawyer, suggested to the entire membership that they refuse to advise their Government how they had disbursed the Government-guaranteed funds that they had received. The result effected by that advice may be indicated by the fact that more than 3 months later only one-third of those to whom the questionnaires was sent had answered.

Abraham Traub is a lawyer in Brooklyn, N. Y. He represented a substantial number of sponsors of section 608 projects. The FHA-guaranteed mortgages on these projects exceeded $106 million. In a period of 6 years Traub drew checks on his law firm to the order of cash in a total amount exceeding $1 million. In 1 year he charged $80,000 on the law firm income-tax return as a business expense under the heading, "Miscellaneous clients' expenses." Most of those items were represented by checks drawn to cash. The bookkeeper for his

firm testified that Traub frequently asked her to draw checks to cash in substantial amounts. The record showed these amounts were frequently $5,000, $10,000, $20,000, and even larger amounts. Checks, payable to the order of cash, would be signed by Traub and a clerk would be sent to the bank to obtain the currency. The bookkeeper testified that sometimes Traub told her the purpose for which the check was to be drawn, but on other occasions he would not so advise her, and in these instances she merely charged the disbursement to overhead.

Traub also testified that he had borrowed a large sum of money, principally in cash, from a money lender now deceased. He testified that many of these cash payments were in repayment of that loan to the now deceased money lender. When it was shown that there were frequently two large cash payments in the same day, he replied that sometimes the money lender would come in in the morning for a payment and then come back again in the afternoon for another payment.

Apart from such of these sums as were allegedly paid to this money lender, and which Traub could not identify from the mass of cash payments, Traub could not explain the nature, purpose, or recipient of any of those cash payments. The volume of the cash payments in relation to the total income of Traub and the total fees of his law firm was such that they were in no sense an insignificant factor. It is difficult, to say the least, to understand his inability—or refusal—to explain these transactions.

George T. Grace is a lawyer practicing in New York City. He practiced with his brothers, Thomas, Patrick, and William under the firm name of Grace & Grace. In 1935 Thomas Grace was appointed FHA New York State director, a position he continued to hold until 1952. Yet after his appointment to that full-time Government job his name still appeared on the stationery and on the door of the law firm of Grace & Grace.

George Grace testified to receiving $291,000 in fees for handling some 64 projects at FHA, and to an additional $100,000 in other income connected with FHA matters. He also testified that during the period in which he received that money he paid $46,700 to his brother Thomas. In 2 years, while Thomas was State director, the brothers filed a partnership return showing him as an equal partner in the firm and distributing to him in each year $19,000 of partnership profits.

George Grace kept at least two different sets of records, each of which was incomplete. Many fees received by George were never deposited in the firm bank account, never appeared on the firm books, and were deposited only in one of his personal checking accounts. On other occasions the fee was deposited in his personal account and at a subsequent date taken into the firm's account either in whole or in part. The record does not indicate that either George or Thomas Grace testified fully or completely with respect to their many financial dealings in FHA matters.

Marshall Diggs, a lawyer practicing in Washington, D. C., testified that several clients were brought to him by Richard McCormack (not a lawyer) in connection with rental housing projects under section 803 of the Housing Act. Diggs testified that he did not know what representations McCormack had made to those prospective clients to

obtain their representation. Each client was charged $5,000 for work presumably in connection with obtaining an FHA commitment. Diggs paid half of the fees to McCormack (although McCormack denied receiving the money as fees and claimed the payments were loans, presumably because he had failed to include them in his income-tax returns). None of these clients ever received an FHA commitment on any matter on which Diggs worked.

The presence of counsel at a congressional hearing is to advise the witness of his rights and privileges. It is not that the lawyer may testify for his client or seek to change the course of the congressional inquiry. On occasions lawyers representing witnesses before the committee have sought to do so. In one instance the lawyer sought to answer many of the questions asked his client. Once when he was advised that it was the answer of his client that was desired, he turned to the client and said, "Tell him * * *." The client replied, "I can't say that."

The transcript reveals 1,386 lines of questions asked this witness and 282 lines of statements by the attorney that were not asked for or required.

The attorney was not under oath and did not have personal knowledge of the facts, but he consistently insisted on answering questions for his client—which his client, who was sitting next to him, necessarily was in a better position to answer of his own personal knowledge.

We do not otherwise identify this lawyer for it is clear that he participated in no personal wrongdoing and intended nothing improper. However, his conduct did necessarily impede the search for truth and justice by this committee and could well have caused members of this committee, or its staff to lose either their patience or their equilibrium.

Section E. The Conduct of This Inquiry

It has been the purpose of this committee to conduct an impartial, thorough, and searching inquiry of the administration of the National Housing Act, but with full respect for the rights and privileges of every witness appearing before the committee. A set of rules for the conduct of the inquiry was adopted by the committee and adhered to with respect to every witness. These rules of procedure are:

Resolved by the Committee on Banking and Currency of the United States Senate that the following rules governing the procedure of the committee are hereby adopted:

1. A subcommittee of the committee may be authorized only by the action of a majority of the full committee.
2. Unless the committee otherwise provides, one member shall constitute a quorum for the receipt of evidence, the swearing of witnesses, and the taking of testimony, and the chairman of the committee or subcommittee may issue subpenas.
3. No investigation shall be initiated unless the Senate or the full committee has specifically authorized such investigation.
4. No hearing of the committee or a subcommittee shall be scheduled outside of the District of Columbia except by the majority vote of the committee or subcommittee.
5. No confidential testimony taken or confidential material presented at an executive hearing of the committee or a subcommittee or any report of the proceedings of such an executive hearing shall be made public, either in whole or in part or by way of summary, unless authorized by the committee or subcommittee.

6. Any witness subpenaed to a public or executive hearing may be accompanied by counsel of his own choosing who shall be permitted, while the witness is testifying, to advise him of his legal rights.

7. If the committee or a subcommittee is unable to meet because of the failure or inability of its chairman to call a meeting, or for any other reason, the next senior majority member of the committee or the subcommittee, who is able to act, shall call a meeting of the committee or the subcommittee within 15 days after the receipt by the Secretary of the Senate of a written request, stating the purpose of such a meeting, from a majority of the members of the committee or the subcommittee.

8. Committee or subcommittee interrogation of witnesses shall be conducted only by members and staff personnel authorized by the chairman of the committee or subcommittee concerned.

In the course of our hearings 9 witnesses, 3 of them former FHA officials, availed themselves of the constitutional privilege against self-incrimination. On each occasion the witness was advised that it was his privilege to decline to answer questions that might tend to incriminate him. No witness was urged to testify when he expressed the opinion that by doing so he might thereby incriminate himself.

While wholly respecting this constitutional privilege, the committee was nevertheless deeply disappointed when a Government official, who for almost 20 years had administered a housing program involving more than $8 billion of Government commitments, claimed the privilege of self-incrimination against all questions asked of him. Those questions which related specifically to his official conduct as Assistant FHA Commissioner. We do not question his legal or even his moral right to have done so; we merely express keen disappointment at a former high Government official having done so. Those who exercise a public trust, particularly over a long period of years and with respect to such large sums of money, owe the people who have been their employer an accounting of their conduct.

There was also testimony before this committee of 16 former FHA officials receiving money or property under circumstances shown by the testimony to appear to be in violation of the conflicts of interest laws and the corresponding regulations of FHA.

We are grateful for the cooperation received from the executive departments concerned with this inquiry, particularly the Federal Housing Administration, Housing and Home Finance Agency, Internal Revenue Service, and the Department of Justice; and to the General Accounting Office and the Federal Trade Commission for the valuable staff assistance they made available to the committee.

PART VIII. SPECIFIC CASES ILLUSTRATIVE OF THIS INQUIRY

Throughout the discussion in this report we have frequently referred to particular cases as illustrative of specific practices. The Glen Oaks case, the largest single windfall in a section 608 project, and the Levitt brothers (Levittown, N. Y.) case, the largest single windfall in a section 603 project, have been referred to in the income-tax discussion.

In the paragraphs that follow, there are discussed specific aspects of pertinent cases that have not heretofore been considered, although the projects may have been discussed in other parts of the report.

Section A. Ian Woodner Properties

Ian Woodner is an architect who utilized section 608 of the Housing Act to become a millionaire in the postwar period with apparent disregard of the statutory and regulatory limitations governing such projects. Woodner testified that at the end of World War II he was worth between $20,000 and $40,000. In the succeeding 5 years he built approximately $50 million worth of real-estate projects financed wholly by FHA. He used a multiplicity of corporations to achieve this purpose and pyramided his finances by moving assets from one corporation to another like checkers on a checkerboard.

Shipley Park Corp. was his top holding company. However, it never assumed the obligation of any FHA mortgage. This liability was undertaken only by subsidiary corporations. At one time Woodner had 35 such subsidiary corporations, in 22 of which the only capital stock ever issued was in the amount of $1,000. In 7 others the common stock was $1,000. The total capital stock in the $10 million Woodner "hotel" project in Washington was only $3,000. Woodner frequently utilized the device of purchasing land in his own name with funds of the corporation, then leasing the land to a subsidiary company which obtained an FHA-insured mortgage on the leasehold, while he obtained a mortgage on the land for an amount in excess of its cost.

Woodner built 24 section 608 projects in which the total mortgage proceeds (including the proceeds of mortgages on the land in leasehold cases) were $42 million and the total costs of the properties as shown by his books (including the cost of the land in each case) were $680,000 less than the mortgage proceeds. A cursory examination of his books reveals hundreds of thousands of dollars of items improperly charged as costs. The true costs are no doubt several million dollars less than those shown on his books.

An examination of Woodner's accounts disclosed many checks issued to cash, and for which currency was obtained at the bank, but which Woodner could not explain. As noted elsewhere in this report more than $50,000 in checks to an ex-FHA employee, Arthur M. Chaite, were issued by the Woodner Co. Most of these checks were

to the order of cash and for round sums such as $5,000. Chaite's endorsement appears on each check and the bank's stamps indicate that someone received currency in that amount. Neither Woodner nor Chaite could recall who received those funds or for what purpose they were disbursed.

Woodner retained no less than five former FHA employees. Many trails lead from Woodner to Powell, but the testimony discloses no funds actually paid to Powell by Woodner.

The extent to which Woodner juggled funds is illustrated by the financial statements accompanying his applications for FHA-insured mortgages. In most of these applications Woodner's wife, brother, and sister were listed as cosponsors. None of them had any substantial assets but it was apparently necessary that their financial statements indicate to FHA that they were financially responsible people. Immediately prior to the dates of those financial statements Woodner would withdraw large sums of cash from the corporate bank accounts and cause them to be deposited in his own account and in those of his wife, brother, and sister. These bank deposits would then be shown as assets in their financial statements.

Woodner was asked if these sums were gifts, loans, or payments, but he consistently refused to answer. His difficulty seemed to be that he could not call them payments for services or dividend distributions because none of the funds were reflected in the recipient's income-tax returns; and he could not call them loans because the alleged financial statements disclosed no corresponding liabilities. These funds then belonged to the corporation which at the time had many unpaid bills. Subsequently the funds were returned to the corporation. Woodner's applications to FHA for mortgage commitments were not any more accurate than his financial statements.

At the request of this committee, General Accounting Office auditors examined the books of the Woodner "hotel" project in Washington, D. C. These auditors found disbursements of $285,000 for which the supporting data were missing from the files. Those disbursements included: $87,000 in fees for detective work in connection with Woodner's divorce case; a total of about $50,000 to several law firms for legal services in connection with his marital problems; and $30,000 for alleged services by a former Member of Congress in connection with a project that did not exist and if ever contemplated never attained any stage of actual materiality. Many of the items included in those disbursements could not be identified by Woodner. One small item of $500 was for a watch "they" bought for Woodner.

The General Accounting Office's accountants found millions of dollars of transactions never reflected on Woodner's books. Journal entries transferring several million dollars in accounts were made in New York by the firm's auditors, Marshall Granger & Co., but never reflected on the Woodner books. One of these journal entries gave Woodner personally a credit of $281,184 for the return of an "advance" which in fact had been advanced by the corporation. Other entries included giving Woodner credit twice for the return of an advance of $117,000 which he presumably had once made.

Since the end of the war the corporations had issued checks payable to Woodner in amounts totaling $1.4 million. But his salary was only $60,000 in that entire period, his profit and loss account showed a loss of $38,000, and no dividends were paid by the corporation.

The corporation also paid personal bills of Woodner in amounts totaling $342,716. Journal entries, most of which were reflected only in the auditors' papers in New York and not on the books of the corporation, transferred more than $2.3 million between Woodner and the corporation. Finally, these entries gave Woodner credit for alleged expenditures of large sums of money for such purposes as "promotion." They did not reveal, and Woodner claimed not to remember, who promoted what.

When the section 608 program expired, Woodner moved over to military housing under section 803 of the act. He obtained commitments of $6.4 million for a rental housing project at Chanute Air Field, near Rantoul, Ill. Woodner's sponsoring corporations entered into contracts with Woodner's construction company for the construction of those buildings. The construction contracts required the construction company to complete the buildings for the contract price.

It was customary for FHA to require a completion bond to insure the completion of such projects. On December 14, 1950, Max Woodner wrote the FHA director at Springfield, Ill., asking that he be permitted to give his personal performance bond. The letter concluded:

> After reconsideration, if you still feel that my financial status is not sufficiently clear to merit the acceptance of an indemnity agreement executed by myself, I would like to suggest that you forward the matter to Mr. Clyde Powell, Assistant Commissioner for Rental Housing of the Federal Housing Administration, asking for assistance in reaching a decision satisfactory to both you and myself.

Max was the brother of Woodner and a $75-a-week employee of Woodner's company. He had no assets except such as Woodner would from time to time place in his name for the purpose of making alleged financial statements.

On January 8, 1951, Powell overruled the local State director. Powell held Max inadequate as an indemnitor, but directed that the indemnity agreement be approved if Ian Woodner and his sister Beverly became additional guarantors. The assets of all the Woodners consisted largely of the assets in the construction company whose obligation to construct the buildings they were now guaranteeing.

Before the project was completed the separate corporations that Woodner had created for that purpose ran out of funds. Woodner urged the Air Force to loan him money to complete the projects, saying that if they did not do so there would be a 2-year delay in construction resulting from the necessity of an FHA foreclosure of the property. The Air Force then loaned the Woodner company $615,000 with which to finish the project. Shortly after the project was finished that loan went into default. The Air Force has since taken over possession of the property and suit is now pending to recover the loan. Had Powell not waived the requirement for a proper indemnity bond this default would not have occurred. We have serious doubts of the authority of the Air Force to have made that loan and certainly Woodner's construction company should not have been relieved of its liability to perform its contract.

When the Chanute property became involved in financial difficulties the remaining available funds were placed in an escrow for payment of debts of the project. The General Accounting Office's examination

of the Woodner books discloses four invoices approved by Woodner for payment, which were paid out of the escrow funds, and the proceeds thereupon returned to Woodner by the recipients. These 4 invoices were by his accountant, his insurance man, and 2 of his lawyers. The funds apparently thus siphoned out were approximately $35,000.

This committee did not get from Woodner all the facts with respect to the Woodner projects. The testimony does, however, show that many irregularities occurred.

Section B. Shirley-Duke Apartments

The Shirley-Duke project in Arlington, Va., includes 2,113 rental units in 200 buildings. The project was one of the more fantastic frauds perpetrated under the section 608 program. Six corporations were involved. Each had a capital stock of $1,000. Don A. Loftus, who made fabulous profits in other section 608 projects, appears to have been the guiding genius in this project but it was denied that he had any financial interest in the project.

The principal sponsors were Herman W. Hutman, Earl J. Preston, and Byron Gordon, Jr. Each placed himself on the payroll of one or more of the corporations at salaries of $20,000 each per year from the time the corporation was created. The only capital of the six corporations was $6,000. We find no indication that anyone other than Investors Diversified Services ever advanced any funds or furnished any additional capital for the construction of the project.

FHA estimated the cost of the project at approximately $15.3 million and insured a mortgage for $13.8 million. The actual cost was approximately $11.7 million, including a fee of almost $1 million to IDS for financing the project (in addition to interest paid to it on the funds from time to time loaned). In advance of filing the FHA application, IDS advanced $5,000 for an option on the land and it subsequently furnished the remaining funds necessary to purchase the land. This land was acquired for the sole purpose of constructing this FHA project.

The contract between these sponsor corporations and IDS was never disclosed to FHA. Contrary to FHA regulations and the requirements of the act of Congress, that contract showed that the parties would build the project for substantially less than the proceeds of the FHA mortgage and that IDS would furnish all the funds necessary to finance the construction.

The sponsors were repaid their $6,000 investment in a matter of weeks out of their salaries at the rate of $60,000 a year. On completion of the project there was distributed to the sponsors dividends of $2.2 million on that stock for which they paid $6,000. That distribution, in addition to the fees paid IDS, was part of the mortgage proceeds over and above the total costs of the project, including the land and interest on the funds advanced during construction.

We have referred elsewhere in this report to the false statements in the application, the impropriety of the IDS contract, the extent to which FHA approved inflated rentals resulting from an appraisal almost 50 percent above actual costs, and finally, that FHA granted a rental increase after completion of the project. That rental increase was specifically approved by Powell.

Section C. Parkchester—Kapelow

Paul Kapelow and Louis Leader, brothers-in-law, entered the construction business in Memphis following World War II. In 1948 they migrated to New Orleans to climb aboard the section 608 bandwagon. Their entry into the field was financed by E. H. Crump & Sons of Memphis, Tenn., who supplied some of the money to purchase the land for their Parkchester development in New Orleans and who were paid $300,000 for their assistance in the financing of that project. This financial assistance was undertaken through a corporation expressly organized for that purpose under the name of Mississippi Valley Mortgage Co. with capital stock of $10,000. The Kapelow group subsequently bought that stock from the Crump group for $383,000, under circumstances giving the sellers a long-term capital gain.

The Parkchester property, as noted elsewhere in this report, received an FHA insured mortgage of $10.8 million. Construction costs were somewhere between $1.7 million (the sponsors' figure) and $3.5 million (the FHA figure) below the mortgage proceeds. After siphoning out the excess mortgage proceeds, the Kapelow group sold this $10.8 million property for $5,000 (subject to the mortgage) under a contract calling for additional payments over a period of time of $110,000.

After collecting rentals of almost $1 million that buyer defaulted on the mortgage and the property is now being foreclosed. In their computations of costs the sponsors charged as "overhead" costs against this property approximately $700,000, including such items as entertainment, travel expense in very substantial figures, and salaries to themselves.

The Kapelow group also sponsored other section 608 projects, including the Claiborne Towers project in New Orleans, a project in Natchez, Miss., in which their books show a windfall of $212,000, and a project in St. Louis in which their books reflect costs in excess of the mortgage commitment. In the 4-year period following their removal to New Orleans and their entry into the FHA program, the financial statements of Kapelow and Leader show an appreciation in their assets from $600,000 to $7 million. This was apparently achieved in such a manner that neither they nor the corporations paid income taxes on their gains. No dividends were paid on the stock of their construction company, Shelby Construction Co., which owned the stock interests in the affiliated corporations, and the salaries of Kapelow and Leader were very modest. Yet in that 1948 to 1952 period they found funds to buy out a third partner for $315,000 (whose original investment had been $10,000), for Kapelow to build a $354,000 home (actual cost to the construction company which built the home and charged it to Kapelow on its books), and to make investments in other projects achieving them very substantial profits (including a shopping center in the Parkchester development which they still own).

SECTION D. FARRAGUT GARDENS—KAVY-HIRSCH

Farragut Gardens is a rental housing project of 2,496 units located in Brooklyn, N. Y. A great deal of mystery surrounds this project. The committee has never been able to learn all the facts about the matter. Morris Kavy was the principal promoter of the project. He was involved in an automobile accident shortly after the investigation began and the committee was advised by doctors that he would be unable to appear as a witness. Nathan Neitlich and Louis Failkoff were the auditors who presumably were acquainted with all of the costs of the project charged on the books of the project. The committee was advised by doctors that neither auditor was physically able to appear at public hearings. Abraham Traub was the attorney for these sponsors. As previously noted in this report, Traub was unable to identify the many transactions involving cash shown on his books to have exceeded a million dollars over a period of 6 years. A number of those currency transactions which Traub could neither explain nor identify related to this project.

Alexander P. Hirsch, Henry Hirsch, and Louis Benedict were associated with Kavy in this project. Each owned one-fourth of the stock of Nostrand Realty Corp. Nostrand purchased property in Brooklyn, on part of which this project was built, for a total of $1.6 million. Subsequently they sold a part of the tract to the city of New York for $440,000 and another part to private buyers for $285,000. Their cost of the remaining portion of the tract, on which this project was built, was $875,000. Nostrand created five corporations, each bearing the name Farragut Gardens, which received commitments from FHA for the projects described as Farragut Gardens No. 1 through 5. The FHA commitments were for $21.9 million. These commitments were for buildings to be built on leaseholds owned by the five Farragut Gardens corporations. In connection with its mortgage commitment FHA valued the land, still owned by Nostrand, at $1.9 million. This valuation permitted the sponsors to obtain a conventional mortgage on the land of $1,732,400.

The 5 Farragut corporations then entered into construction contracts with 5 corporations named, respectively, Reston Corp. Nos. 1 through 5. Each Reston corporation built 1 of the Farragut buildings at cost plus a fee of $40,000. The mortgage proceeds exceeded total construction costs by $3.6 million. The cost of the land was the only investment made by the sponsors other than the capital stock in the five Reston corporations. (The capital stock of the five Farragut corporations was paid for by Nostrand.) The capital stock in each of the Farragut and Reston corporations was $1,000.

After the return of their entire investment in the land, the promoters had a "profit" of about $700,000 from the proceeds of the mortgage covering the land. This money remains undistributed by Nostrand. They also have a "profit" of $200,000 in the five Reston corporations which also remains undistributed. They were prompt, however, to distribute to themselves $3.2 million from the Farragut corporations out of the excess mortgage funds after the payment of all their costs for the project. Presumably, this prompt distribution

resulted from the fact that the Farragut corporations alone were liable on the FHA insured mortgage debt.

FHA estimated the cost of the project at $24 million. George M. Halk, an appraiser for the Dry Dock Savings Bank, which owns 3 of the 5 mortgages, testified that the bank's appraisal of construction costs was $15.4 million. The sponsors claimed that the actual costs were $18.1 million but this committee has never been able to verify those costs. The FHA estimate was 50 percent in excess of the bank's estimate of costs and 33 percent in excess of the sponsors' claimed actual costs.

A committee staff employee with considerable building inspection experience testified, after an examination of the project, that he doubted if the project would last the life of the mortgage. There was considerable evidence of poor and shoddy construction. The only principal from whom the committee was able to receive any testimony was Alexander P. Hirsch who knew almost nothing about the project except to concede that the total "windfall" exceeded $4 million and that an excess of $3 million had actually been distributed to himself and his partners.

Section E. Page Manor—Muss, Winston, et al.

The Page Manor housing project was among the first constructed under the section 803 military housing program. The enterprise was passed from hand to hand and proved profitable for everyone involved. The project was apparently conceived by two enterprising Washingtonians, William Ready, a former Army colonel, and Thurry Casey. They "brought" the idea for this housing project in Dayton, Ohio to Link Cowan, a Shawnee, Okla. builder.

Cowan agreed to pay Ready 5 percent of the net profits on any construction project they might build. Ready, in turn, made a private deal with Casey. An option was taken on land adjacent to Wright Field in Dayton which was exercised when it appeared that the project might be completed.

Cowan applied to FHA for a commitment which was issued to him on December 8, 1950, covering insured mortgages of about $15 million. The project was to be built in four sections. There was a separate commitment for each section. These commitments were based on plans and specifications which Cowan had filed with FHA. After filing the applications but prior to the issuance of the FHA commitment, Cowan felt the need to associate himself with others who could assist in financing the project. He then took in as partners Clint Murchison, Jr. and John D. Murchison of Dallas, Tex. Cowan testified that his reason for bringing in the Murchison brothers was that—

> I had limits on my finances * * * I certainly did not know anything about housing, and in order to be able to carry on with the deal, it was necessary that I get a partner.

Subsequently Cowan and Murchison, "analyzed the whole situation; we figured we had a bad job and it would be impossible to go ahead with the thing," and Murchison suggested they bring in David Muss whom he had met in San Antonio.

Muss proved much more astute than Cowan or Murchison in promoting an FHA rental housing project. He formed Airway Construc-

tion Co. in which Cowan, the Murchison brothers, Muss, and Norman K. Winston (New York associate of Muss) each owned a one-fourth interest. The land which Cowan had bought for $65,000 was then sold to Airway for $165,000 (at least part of the increment was to reimburse Cowan for his expenses.)

Muss decided to "revamp" the entire picture. He filed amended applications with FHA and increased all of Cowan's estimated costs. He even increased the estimate for the land. Cowan testified concerning the plans which FHA had already approved for his $15 million project, "that after learning what I have learned about rental housing, our plans weren't any good and in a sense they were impractical." Muss' revised plans estimated the costs at more than $2 million above the estimated costs presented by Cowan and FHA issued an amended commitment to insure mortgages in the total amount of $17.3 million. Actual costs turned out to be very close to the original Cowan estimates.

In spite of the substantial increase in the commitments, the plans prepared by Muss called for less expensive buildings. The Cowan plans were for a brick building with a gabled roof, while the Muss plans were for a stucco building with a flat roof. The savings accruing from these changes were at least in part offset, however, by the larger rooms provided for in the Muss plans.

The increased estimate in costs in the Muss applications raised the architect's fees by approximately 25 percent, increased legal expenses by 200 percent, increased the cost of utilities by 50 percent, and even increased the estimated cost of landscaping by 50 percent. In fact the architect's fee actually paid was less than one-third of Cowan's original estimate and only about 20 percent of the Muss estimate. To a lesser extent, this was also true of other costs, with the result that when the project was completed, there was not only no investment by the sponsors, but there was $908,000 of the mortgage funds available for distribution to the shareholders. Each stockholder then borrowed from the corporation approximately one-fourth that amount. Muss testified that the money was distributed as a loan rather than as a dividend because, "we have been waiting on a decision from the courts, the Tax Court, in cases like Gross-Morton's."

Muss also introduced a multiplicity of corporations to the project. The construction was by Airway Construction Co. The project itself was owned by 4 corporations known as Page Manor, sections 1 through 4, respectively. Each of those corporations was in turn owned by Page Manor Management Co., whose capital stock is $800. Each of the sponsors put up $200 for his one-fourth interest in that corporation.

Cowan subsequently settled his "5 percent" contract with Ready by the payment of $37,000, out of which Ready paid $10,000 to Casey.

Muss did not confine to the Page Manor project the abilities that permitted him to transfer what Cowan thought was a "hopeless" situation into a windfall of a million dollars.

Muss, Winston, and others built four rental housing projects in San Antonio, Tex., at the Mitchell Air Force Base. The proceeds of those FHA insured mortgages were $13.3 million and exceeded the total costs of the project by $965,000. A separate corporation was formed for each of the four sections of the project. The first section was built under section 608 of the Housing Act. The remaining portions were built under section 803 of the act. The common stock in each

of these corporations was $3,000, of which $1,550 was contributed by Winston, $1,000 by Muss, $300 by Louis H. Kaplan, and $150 by Henry W. Penn. Winston held half his interest as agent for a Swiss trust named Mika Stiftung. The Swiss corporation contributed about $3,000 to the venture and received a windfall dividend distribution of $310,000. Manifestly Winston and Muss did not need those financial resources of the Swiss trust, and it is not claimed that this trust situated in Switzerland made any other contribution to the project.

Winston, Muss, and Mika Stiftung promoted Northbridge Cooperative in New York City receiving an FHA mortgage commitment under section 213 of the act for $10.4 million. Before construction of the project had even started they sold their FHA commitment to other contractors for which they were paid $843,000.

Muss and his associates are now engaged in a $14 million project at Limestone, Maine, under section 803 of the Housing Act. The project has not been completed but Muss testified that he expected the mortgage proceeds would exceed total costs. The capital stock of the corporation engaged in constructing that project is $10,000 and is owned by the Airway Co. The Airway Co., in turn, has capital stock of $10,000 of which 50 percent is owned by Tecon Corp., 25 percent by Mucon, Inc., and 25 percent by First Garden Bay Manor, Inc. The stock of Tecon is owned by the Murchison brothers. The stock of Mucon is owned by Muss and members of his family. The stock of First Garden Bay Manor is owned by Winston and members of his family.

The Murchisons also constructed projects under sections 803 and 903 in Texas, California, and Idaho with FHA mortgages of over $23 million.

Winston, Muss, and Murchison have additional projects at Great Lakes, Ill., involving FHA mortgages of $13 million.

Winston, in association with friends and relatives, built 9 section 608 projects in the New York City area with aggregate FHA insured mortgage proceeds of $6.5 million. He enjoyed windfalls in 7 of the 9 projects. The net amount by which mortgage proceeds exceeded all costs in all of the projects was $655,000.

This group received over $95 million of FHA insured mortgages, and to date have no investment in the projects they have completed, and have received substantial windfalls.

Section F. Linwood Park—Sidney Sarner

The Linwood Park section 608 housing project was owned by 13 corporations, each of which had a capital stock of $1,000. Sidney Sarner and Ralph J. Solow each owned half the stock in those corporations. FHA insured mortgages on the project for $8.9 million. This was $2.5 million in excess of the total costs of the project.

Sarner and Solow quarreled during the early stages of construction and Sarner bought out Solow's interest for $1,200,000. This was half the ultimate windfall leading to the conclusion that well before construction was completed the parties knew the full extent of their ultimate windfall.

The remaining funds in excess of the mortgage proceeds were used by Sarner to construct a shopping center which is not covered by the FHA mortgage.

When interrogated at a public hearing concerning this project, Sarner declined to answer any questions on the privilege of the fifth amendment against possible self-incrimination.

SECTION G. CHARLES GLUECK—MID-CITY INVESTMENT CO.

Charles Glueck was the principal stockholder and president of Mid-City Investment Co. of Gary, Ind. Mid-City was active as a mortgage broker for section 608 projects in Indiana and Glueck engaged in questionable business relations with then FHA State Director Earl Peters.

In 1947 Peters promoted the construction of a section 608 project in Fort Wayne, Ind. Glueck was to put up $7,500 for one-third of the stock; Peters was to put up $7,500 for one-third of the stock; and Allen & Kelley, architects at Indianapolis, were to draw the plans and specifications for the other one-third of the stock. Allen & Kelley drew the plans but did not receive any stock and were not paid for their work. Glueck advanced $7,500 and was initially issued one-half the stock of the corporation.

After the project was completed Glueck gave this stock to Peters. Glueck initially testified before the committee that Peters reimbursed him for the money that Glueck had advanced for this project. Subsequent investigation disclosed, however, that reimbursement to Glueck came, not from Peters, but from the proceeds of the mortgage premium.

In March 1951 Glueck purchased approximately $6,000 of furniture for adjoining apartments that he and Peters were to occupy in Sherwood Apartments, a section 608 project then being completed in Indianapolis. This furniture was delivered in the summer of 1951 to the Peters and Glueck apartments respectively. On January 14, 1952, Peters was fired by FHA for participation in the Fort Wayne project. The following day the furniture dealer was notified by Glueck's office that Peters, and not Mid-City Investment Co., should be billed for the furniture delivered to the Peters apartment.

Glueck did not confine his interest in FHA personnel to the State director. One winter Glueck, who was in Florida, was joined by his wife and Mr. and Mrs. James Swan. Swan was then an FHA official. Glueck testified that he did not know whether Mrs. Glueck paid for the transportation to Florida for the Swans, or whether it was paid for by Swan. But subsequently Glueck admitted that he had paid the expenses of Mr. and Mrs. Swan.

Glueck's FHA activities paid dividends. In addition to acting as mortgage broker in a great number of FHA projects in Indiana, he also appears to have "sold" commitments. Glueck purchased for $40,000 the land in Gary on which the Major Apartments project was built. He transferred that land to a corporation, obtained an FHA commitment for a section 608 project, then sold the stock in the corporation for $350,000. The corporation had no assets other than the land and the commitment. The transaction was actually arranged before the application for a commitment was filed, but subject to Glueck being able to obtain the FHA commitment.

In the Steel City Village project in Gary, Glueck sold the land to a section 608 project for $50,000 plus half of the stock in the sponsoring corporation. This land was part of a substantially larger tract which had cost Glueck $15,000.

The testimony of Glueck's dealings on FHA matters was a story of concealment of the facts, sharp dealings, and the apparent use of influence to achieve big profits.

Section H. Investors Diversified Services

Investors Diversified Services financed a substantial number of FHA-insured projects. In five of these projects, however, Investors Diversified Services obtained from the sponsors a share of the profits, in addition to interest on its money loaned, in exchange for unusual "services" extended by IDS.

In the Shirley-Duke case IDS furnished the funds with which the sponsors acquired the land and paid every other item of expense in connection with the construction of the project. The sponsors used none of their own funds. A contract between the sponsors and IDS that was never disclosed to FHA shows that prior to the filing of the FHA application it was understood by both the sponsors and by IDS that the cost of the project would not only be well below the sponsors' estimate but also considerably below the FHA insured mortgage.

The FHA applications were prepared in the IDS office under the guidance of an IDS local manager who ultimately received an interest in the project. FHA regulations limited financing charges to 1½ percent, but IDS collected 6½ percent in addition to a long-term management contract. It was claimed that the FHA regulations limiting financing charges were not applicable because FHA did not insure the construction advances but insured only the permanent mortgage on completion. However, the IDS contract shows that all of its advances were to be repaid out of the proceeds of the FHA insured loan. The contract even provided that IDS would be paid its $900,000 fee immediately upon the signing of the contract. It then loaned the sponsors the money with which to pay the fee and received not only repayment of that loan from the FHA mortgage, but also interest on the money it advanced for the payment of its own fee. IDS colluded with the sponsors of Shirley-Duke project to evade the purposes of section 608 of the act and the regulations of FHA.

In the Shirley-Duke project, IDS received a total of $1,184,684 in addition to interest on the funds it had advanced. On this sum, $889,990 was a "compensatory fee" for financing the project, $121,619 was paid as settlement of a long-term management contract and $173,075 as the premium on the sale of the mortgage. IDS was so careful not to expose itself to any undue risk that it not only required an FHA commitment to insure the mortgage before it advanced any funds, but it also required a commitment from Federal National Mortgage Association to purchase the FHA-guaranteed mortgage.

IDS similarly financed the Cleveland Parkway Gardens project in Cleveland, Ohio, the Carson Homes project in Los Angeles, Calif., the Lakewood Park project in Los Angeles, Calif., and the Charleston Park project in Las Vegas, Nev.

In the Parkway Gardens project, IDS received fees of $570,300. In the Lakewood Park project, IDS and a wholly owned subsidiary received fees totaling $1,321,790. In the Carson Park project, IDS received fees of $1,490,010. The Charleston Park project has not been completed and the amount of its fees are not yet known.

In those four projects that have been completed, IDS has received approximately $4.5 million in fees for financing projects with FHA insured mortgages of $55 million (*in addition to interest on its money*). Repayment of its advances was virtually assured out of the proceeds of the FHA insured mortgages. The total FHA mortgages in which IDS participated exceeded $200 million.

Section I. Dr. Daniel Gevinson

Dr. Daniel Gevinson was a practicing dentist in the District of Columbia until 1950. In 1947 he became aware of the advantages of section 608 of the Housing Act. He estimated his then net worth at $50,000. Six years later, he was the owner of all or a substantial interest in 6 section 608 projects with mortgages of $13.4 million. His personal assets were then $2 million. Gevinson had given up dentistry by 1950 for the more lucrative business of section 608 housing. He was a frequent visitor to Powell and on at least one occasion Powell overruled local FHA officials to approve a project for Gevinson in Texas.

On one project Gevinson gave stock to the son of the builder to persuade him to interest his father in financing the construction. In another project Gevinson received a $6,000 "kickback" from the contractor for giving him the job.

Dr. Gevinson's projects are in Texas; Washington, D. C.; Pennsylvania; and New York.

Section J. Stone River Homes—Edward A. Carmack

Stone River Homes is a rental housing project at Smyrna, Tenn., constructed under section 803 of the Housing Act. It illustrates a promoter's ability to acquire such a property with no investment.

A group of local people, including Joseph W. Hart and Bolten McBride, purchased 384 acres of land adjacent to the Stewart Air Force Base for $60,000. Hart and McBride applied for a commitment from FHA for a rental housing project to be built on 120 acres of that tract. While the application was pending, Edward A. Carmack made arrangements to acquire for $319,000 the 120 acres proposed to be used for the project. He also acquired all the stock of Stone River Homes which had previously been created to sponsor such a project. FHA subsequently issued a commitment for $4.8 million.

Carmack entered into an agreement with Shelby Construction Co., of New Orleans, under which Shelby agreed to purchase that 120 acres of land for $319,000, donate the land to the sponsoring corporation, and build the project (including the payment of all fees, interest, and taxes) for the amount of the FHA mortgage commitment. Shelby also agreed to pay a penalty that ultimately amounted to $90,000 for any delay in construction. Carmack received $20,000 of the penalty money and Hart and McBride received the remaining $70,000, although they then had no interest in the project. The $20,000 received by Carmack was $12,000 in excess of all the expenses he had incurred in connection with the project.

Shelby, for the amount of the mortgage commitment, bought the land, built the building, paid the FHA fees, the interest and taxes during construction.

When the project was completed, Carmack was the owner of a large rental housing project in which he had no investment and had never advanced any funds other than an estimated $8,000 for travel and miscellaneous similar expenses. Hart, McBride, and their associates in the land profited to the extent of $330,000.

Air Force personnel residing in the project now pay rents determined to be adequate to pay the interest and principal on the mortgage. They were "requested" by the commanding officer of the base to move into and fill that project.

Section K. Samuel Rodman

Samuel Rodman was the principal sponsor of Atlantic Gardens, a section 608 project in the District of Columbia. The project contained three sections. On one section of the project Rodman testified the mortgage proceeds exceeded total costs by "about $50,000 to $60,000." On a second section of the project he testified the mortgage proceeds exceeded the total costs by "probably another $75,000." Rodman and his wife Bella had owned the land on which the project was built and made a substantial profit on the sale of the land to the sponsoring corporation. Rodman also testified that his wife was a stockholder in the section 608 corporation. Their total "profits" on the construction exceeded $300,000.

Bella Rodman had claimed the privilege against self-incrimination when previously interrogated before the House Un-American Activities Committee on her Communist Party activities. Rodman had similarly claimed that privilege with respect to questions asked him about Communist activities, but did deny membership in the party.

Rodman was asked before this committee if he had ever contributed any of the funds made on those section 608 projects "to any so-called un-American activities organization of any kind in the United States." His attorney objected to the question. Later he was asked whether he had "ever contributed to any communistic organizations or causes." His attorney again objected and Rodman answered, "Wouldn't I be a fool not to use my constitutional rights to refuse to answer that?"

Section L. Alley Park Homes

The sponsors and stockholders in Alley Park Homes, Bayside, N. Y., are British subjects living in England. Capital stock of the corporate sponsors was $6,000. The project was built on a leasehold. The excess of mortgage proceeds over all costs was $322,000 which was distributed to British stockholders.

The evidence shows that it was not necessary to be a builder to enjoy "windfall" profits. Doctors and lawyers also did so.

In this case, it appeared that it was not even necessary to reside in the United States to enjoy such profits.

Section M. Lewis Gardens—Franklin Trice

Lewis Gardens is a section 608 project in Henrico County, Va. Franklin Trice of Richmond, Va., was the principal sponsor of the project. Trice had purchased from the United States in July 1948 a tract of 258 acres for $61,790. Fifty-four acres of that land, with a prorated cost of $13,987, were used in this section 608 housing

project. Trice's application, filed 8 months later, valued this property at $349,000. FHA ultimately valued the property at $190,000. The FHA-insured mortgage was $3,884,400. The total costs of the project were $2,925,053 including a fee that Trice paid himself of $129,000. Excluding the Trice fee, the mortgage proceeds were $1,100,000 more than the total costs. The excess mortgage proceeds were distributed to the shareholders, a substantial part of it after the mortgage was in default.

FHA is now the owner of the property and has estimated that it will lose between $700,000 and $2 million in the ultimate disposition of the property.

Section N. Arlington Towers—Walter P. McFarland

Walter P. McFarland, a former restaurant operator, with no previous building experience, is the principal sponsor of Arlington Towers, a rental housing project now being constructed under section 207 of the act. The total estimated cost of the project is in excess of $22 million. The investment of McFarland and the other sponsors is $35,000, although section 207 provides for insured mortgages of not to exceed 80 percent of the value of the property.

The project involves four sponsoring corporations to whom FHA-insured mortgage commitments totaled $16.5 million. Contracts were entered into between these 4 corporations and John McShain, Inc., builder, for the construction of the project for $15.7 million. These contracts were filed with FHA. However, another contract kept secret from FHA showed that the real cost of construction was $18 million. McShain had also guaranteed loans for the sponsors of the corporations in order to arrange for interim financing. The director of the FHA district office in Washington testified that he would not have approved the project had he known of the secret construction contract.

The project is being built on a leasehold. The corporation owning the land has obtained a mortgage covering the land in the excess of the total cost. Upon completion of the project, the corporations will have debts exceeding $5 million not known to FHA and not permitted by FHA regulations.

The project consists of luxury apartments renting for as high as $325 a month. The commitment was insured and the contract signed in 1953.

Section O. Manhattantown Project, New York

Title I of the Housing Act of 1949 makes provision for Federal contributions to local slum clearance projects. The program is administered by the Housing and Home Finance Agency, which is authorized to contribute two-thirds of the subsidy for the acquisition and clearing of a slum area. There are several of these projects underway in New York city. The city acquires the slum area at its fair market value. It then contracts for the sale of the property to the redeveloper at the fair value of the land less the estimated cost of demolishing the old dwellings.

The Manhattantown slum-clearance project occupies a 6-block area in New York City. The city had purchased the land and build-

ings for $15,385,784 and had appraised the value of the land with the buildings removed at $4,157,370. Under the terms of the contract entered into by Manhattantown, Inc., with the city in May 1952, which became effective August 29, 1952, Manhattantown agreed to purchase the land for $3,108,711, being given a credit of approximately $1 million for the cost of demolition of the buildings then on the land. The Federal Government is obligated to pay two-thirds and the city of New York one-third of the $12,277,073 difference between the cost of the land and the sale price to Manhattantown.

Manhattantown paid $1,087,350 of the purchase price in cash. The $2,019,361 balance is payable in 4 years, upon completion of the project. The sponsor corporation manages the properties and collects the rents until the new buildings are constructed. It is permitted to retain, out of any profits that may accrue, a maximum risk fee of $300,000 a year for 3 years. This risk fee is payable only if the project is completed at the end of the 4-year period.

The contract requires Manhattantown to demolish the old buildings, relocate the tenants, and construct new buildings within 4 years. Over 2 years of that period has elapsed. No new buildings have been constructed and only one-sixth of the area has been cleared of the old buildings. According to the project schedules, the demolition work, except for a few commercial buildings, and the relocation of tenants was to have been completed by October 31, 1954.

One of the contract requirements was that the company selected to manage the project and collect the rents was required to be approved by the city. John L. Hennessy & Co., an experienced real-estate firm, was submitted and approved as the management agent. Stockholders of Manhattantown then subverted this requirement by setting up "John L. Hennessy Co., Manhattantown division," an entirely different partnership as the management agent. John L. Hennessy and his son held only a 15-percent interest in this partnership. The remaining 85 percent was held by other stockholders of Manhattantown.

The management company receives 5 percent of the gross rents. The management company has only 2 employees and it pays Manhattantown $1,000 a month to do much of the actual work. Yet it has paid out over $156,000 in profits and salaries to sponsors of the project.

Ferman Builders is paid $25,000 a year to supervise the preliminary construction work until actual construction begins. This company occupies 1 desk in the office of Jack Ferman and has only 2 employees—Jack Ferman and his secretary, Lillian Ager. This company has already been paid $42,000. When actual construction begins, Ferman Builders will receive a maximum of $275,000 for supervising construction. Jack Ferman is president of Manhattantown.

A partnership called Apartment Equipment Rentals was set up on December 16, 1952, to lease refrigerators and stoves in the project to Manhattantown. Manhattantown originally purchased the refrigerators and stoves for $33,000, and then sold them to Apartment Equipment Rentals for $33,000. Upon the signing of the December 16, 1952 contract, Apartment Equipment Rentals was paid $38,000 as rent retroactive to September 1, 1952.

Apartment Equipment Rentals continued in operation for a year and distributed over $126,000 to its partners, all of whom were stock-

holders of Manhattantown or their relatives. At the end of the year, the refrigerators and stoves were sold back to Manhattantown for $33,000.

The record contains numerous other cases where stockholders and their relatives were paid varying sums of money for little or no work.

The record indicates that the stockholders of Manhattantown found it profitable that there was delay in demolition. It also results in greater rental income from the properties.

This was an unusual and fantastic pattern for the stockholders and their relatives to withdraw large sums of money from the project. There are 10 principal stockholders in the project: Samuel Caspert, Jack Ferman, John L. Hennessy, Nathan Silver, Sol Leistner, Maurice Millstein, Fred Landau, Robert Olnick, Charles Feibush, and M. E. Kessler. Each of these stockholders sold part of his interest in the project to members of a syndicate of friends and relatives. A complete breakdown of how each stockholder, his relatives, and friends received $649,215 from the project in the past 2 years is shown in the table on the following pages:

Manhattantown, Inc., Sept. 1, 1952–Sept. 30, 1954—Summary of money received by interested principals for services rendered to maintain, demolish existing property and erect Manhattantown, Inc.

Principals	Capital invested	Salaries through Sept. 30, 1954	Fees and contracts through Sept. 30, 1954	J. L. Hennessy Manhattan division		Apartment equipment rental		Total
				Partners drew through Sept. 30, 1954	Salaries through Sept. 30, 1954	Partners drew through Sept. 30, 1954	Other through Sept. 30, 1954	
J. Ferman	$104,500		$42,[illegible]3.79	$41,217.91				$84,111.70
I. Ferman		29,807.64						9,807.64
A. Ferman		30,588.33						30,588.33
S. Caspert	22,000	37,633.07	1,687.50					39,320.57
Wife	22,000	495.00			$275.00		$250.00	1,010.00
Son Herbert	22,000			4,941.92		$10,206.78		15,148.70
M. Todd	11,000	1,153.86						1,153.86
C. Parment	14,666	5,843.08						5,843.08
S. and L. Arnett	9,166		357.00					357.00
Baltch	9,166							
L. Spivack	16,500							
J. Lowell	11,000							
Blum								
B. Caspert							368.65	368.65
J. L. Hennessy	27,500			20,575.77				20,575.77
John L. Hennessy				12,643.70				12,643.70
Lawrence Rainer	11,000				1,083.29			1,083.29
N. Silver	86,000	31,169.69						31,169.69
(E) A. Roeder	13,750					17,273.84		17,273.84
C. Torgaw						8,567.04		8,567.04
S. Gatkin	16,500	1,961.46			812.50			2,773.96
R. Silver								
I. Hoffmann	5,500							
E. Torgaw						6,567.04		6,567.04
I. Leistner (Koenig Iron)	16,500						260.68	260.68
I. Leistner	16,500	34,706.85					810.00	35,516.85
W. Leistner	16,500							
O. Knapki								
N. Folkman	11,000	1,307.64						1,307.64
H. Elman	16,500							
A. Rosenblum	11,000				1,083.29	7,717.04		8,800.33
Sid Liestner	11,000							
(F) A. Drier	55,000					13,802.64		13,802.64
G. Rosenblum	16,500							
N. S. Folkman	11,000							
M. Kurtz	11,000							
I. Folkman		1,307.64			2,166.71			3,474.35

M. Millstein	$104,500							
P. Millstein				$16,372.16				$16,372.16
J. Millstein		$1,730.79						1,730.79
Fred Landue	60,500		$48,847.02					48,847.02
S. Abrams	30,250					$9,802.64		9,802.64
A. Zimalis	30,250	8,301.22			$2,740.56			11,041.78
M. Weiss		8,301.22			2,740.56			11,041.78
P. Olnick	49,500		26,700.84	30,676.23				56,777.07
H. Nadel	11,000							
L. Friedman	55,000							
M. Lansky	11,000					3,235.59		3,235.59
T. Block								
M. Block						7,274.91		7,274.91
Jack Block						5,609.18		5,609.18
C. Feibush	66,000	6,653.80		3,653.89	871.50	6,485.59		17,664.78
T. Mittman	44,000					25,232.77		25,232.77
H. Feibush								
Ann Feibush (wife)				2,678.24				2,678.24
M. E. Kessler	18,333		5,000.00					5,000.00
S. J. Kessler	18,333		9,000.00					9,000.00
Max Becker		17,083.18						17,083.18
—— Kessler	18,333							
Other:								
Lillian Agar		1,307.64						1,307.64
Abram Beillis		7,270.01						7,270.01
Lewis Flanzer		4,807.75						4,807.75
Matilda Blaikie		588.00						588.00
Robert Raider					947.96			947.96
I. Lustig			8,224.92					8,224.92
David Shapiro						5,151.31		5,151.31
Adjustment, due to posting payrolls in wrong account (see schedule attached for specifications)					21,000.00			21,000.00
Total	1,093,414	212,017.87	142,111.07	132,759.52	33,721.37	126,926.37	$1,679.33	[1] 649,215.83

[1] This figure includes both the amounts actually checked and the amounts projected through Sept. 30, 1954.

The practice of misrepresenting the estimated architect's and builder's fees in applications for FHA mortgage commitments was also practiced here. On December 18, 1953, Jack Ferman, representing Manhattantown, filed an application for FHA mortgage insurance, under section 207 of the Housing Act, on the first building to be constructed in the project. This application estimates the architect's fees at 5 percent and estimated builder's fees at 5 percent. These estimates were included in the application with full knowledge that M. E. Kessler had a contract to do the architectural work for a fee of 1¼ percent and that Ferman Builders had a contract to do the construction work for a fee of 1¼ percent.

This application also estimated the value of the land at $15.21 a square foot. The city had valued the same land at $4.50 a square foot in selling the property to Manhattantown. On a comparable basis the entire project would have an estimated value of $14 million on the Manhattantown estimate compared with the $4 million purchase price.

In May 1952, the same time that Manhattantown, Inc., entered into its slum-clearance contract with the city, the East River Housing Corp. entered into a similar contract to build the Corlears Hook project. That sponsoring corporation agreed to purchase the land for $1,049,000. It paid one-half the purchase price at that time and the remaining one-half 6 months later.

Just as in the Manhattantown contract, the East River Housing Corp. was given 4 years to demolish the old buildings, relocate the tenants, and construct new housing. This corporation had completed demolition of all the area on which the new residential dwellings are to be constructed by the spring of 1954. Only 6 buildings remain on the fringe of the area where the parking facilities will ultimately be located. The construction of new buildings was started in March 1954, and all of the 4 new buildings are now in various stages of construction.

Abraham E. Kazan, manager of the Corlears Hook project, testified that FHA would not insure the mortgage on the new residential dwellings. The buildings will be built entirely with private financing because FHA had insisted that the costs of the project would be $7 million more than the sponsor corporation estimated its cost. Even though firm contracts had been entered into for most of the work, the FHA still insisted on its higher estimate of costs. The sponsor refused to accept the FHA commitment and thereupon obtained private financing for the project.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR, DOUGLAS, AND LEHMAN

While we recognize that it is difficult to reflect the full evidence in a report, we feel that a study of the hearings on particular cases might well justify conclusions other than those stated in the report.

Therefore we cannot subscribe to all the conclusions reached in the individual case studies in parts VII and VIII.

PART IX. CONCLUSIONS AND RECOMMENDATIONS

The text of this report contains our conclusions with respect to each of the subjects discussed in connection with that discussion. It would normally be appropriate to recommend statutory changes to prevent repetition of the inequities here discussed. This committee has, however, made extensive amendments to the National Housing Act by the Housing Act of 1954. That act was adopted with some general knowledge of the frauds and inequities here discussed, although without any realization of the extent of those practices.

The Housing Act of 1954 has now been in effect but a few months. It seems that further time should be given to see whether its provisions will cure the evils referred to in this report. We therefore make no recommendations for legislative changes at this time, but prefer to wait until we have had more experience with the 1954 act before recommending further or additional legislative changes.

In order to properly analyze the effect of these amendments, we recommend that funds be made available to the committee to employ the personnel necessary to conduct a thorough study.

PART X. TABULATIONS

The tabulation of projects listed below includes all sections 608 and 803 (Wherry Act) projects examined in public hearings in which there were windfall profits. The projects are listed alphabetically under the name of the principal sponsor or sponsors as designated in the caption. The amounts listed under the heading of "Windfall" represent the amount by which the proceeds of the mortgage insured by FHA exceeded the actual costs of the project. On projects where the costs exceeded the amount of the mortgage proceeds, the amount of the difference is preceded by a minus sign (—) under the "Windfall" heading.

Projects located on mortgaged leasehold land are indicated by "(L)". In such leasehold cases, the proceeds of the mortgage on the land are included in the mortgage proceeds, the land is included in the project costs, and the excess of the mortgage proceeds over all costs of the land are included in the windfall amount. Projects financed under section 803 are designated as such by footnotes.

Sections 608 and 803 Projects

The following tabulations include all section 608 and 803 projects examined in public hearings having "windfall profits."

BANKS PROJECTS

Sponsor: W. S. Banks.
Associates: John W. Walton,[1] R. Webster Ross,[1] Howard Everhard,[2] and George Ford.[2]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Huntington Apartments, Alexandria, Va.	$300	$570,000	$495,286	$74,714
University City, Prince Georges County, Md.	[3] 900	[3] 2,522,400	[3] 2,326,826	[3] 195,575
Total	1,200	3,092,400	2,822,112	270,289

[1] Walton and Ross had an interest in University City.
[2] Everhard and Ford had an interest in Huntington Apartments.
[3] Combined figures for 3 project corporations.

BART PROJECTS

Sponsor: Harry Bart.
Associate: Albert Stark.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Seton Heights, Baltimore, Md.	$2,600	$1,540,000	$1,537,284	$2,716
Park Raven Apartments, Baltimore, Md.	27,505	2,041,200	1,942,993	98,807
Drum Castle, Baltimore, Md.	[3] 120,000	2,121,600	1,919,411	202,189
Cross Country Manor, Baltimore, Md.	3,100	3,332,800	3,196,172	136,628
Edgewood Manor Apartments, No. 1, Hartford, Md.[2]	2,500	2,057,400	1,724,650	332,750
Edgewood Manor Apartments, No. 2, Hartford, Md.[2]	2,500	2,456,700	2,242,883	213,817
Total	158,205	13,549,700	12,562,793	986,007

[1] Stark had an interest in Seton Heights and Cross Country Manor.
[2] Sec. 803 projects.
[3] Land exchanged for capital stock.

BERNE PROJECT

Sponsor: Gustave M. Berne.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rockaway Crest, Far Rockaway, N. Y...	[1] $1,000	[1] $16,596,321	[1] $13,712,485	[1] $2,883,836

[1] Combined figures for 3 project corporations.

BONNER PROJECT

Sponsor: Bertram F. Bonner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bon Haven Apartments, Richmond, Va..	[1] $3,000	[1] $3,995,389	[1] $3,058,045	[1] $937,344

[1] Combined figures for 3 project corporations.

BOWEN-SUNDY PROJECT

Sponsors: William A. Bowen and James L. Sundy.
Associate: P. H. Preston.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Nelson Apartment, Savanah, Ga.....	$7,500	$1,402,000	$1,100,290	$301,710

[1] One-third stock interest of P. H. Preston held in the name of William A. Bowen. The stock interest of these stockholders was sold prior to completion of building improvements.

JOSEPH J. BRUNETTI PROJECTS

Sponsor: Joseph J. Brunetti.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Brookchester, Inc., New Milford, N. J...	[1] $10,000	[1] $11,011,207	[1] $9,940,032	[1] $1,071,175
Maybrook Gardens, Maywood, N. J.....	[2] 10,000	[2] 3,705,978	[2] 3,696,283	[2] 9,695
Richfield Village, Clifton, N. J.....	[3] 8,000	[3] 7,627,370	[3] 7,491,652	[3] 135,718
Rutherford Apartments, Rutherford, N. J.....	5,000	1,001,000	957,871	43,129
Van Ness Gardens, Maplewood, N. J....	1,000	758,698	901,908	143,210
Wright Village, Lodi, N. J.....	1,000	4,157,010	4,012,552	144,458
Total.....	35,000	28,261,263	27,000,298	1,260,965

[1] Combined figures for 10 project corporations.
[2] Combined figures for 6 project corporations.
[3] Combined figures for 8 project corporations.

CAFRITZ PROJECT

Sponsor: Morris Cafritz.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Parklands Manor, Inc., Washington, D. C...	$15,155	$3,563,000	$3,011,000	$552,000

CARMACK PROJECT

Sponsor: Edward A. Carmack.
Associates: Joseph W. Hart, Bolten McBride, and Shelby Construction Co.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Stone River Homes, Rutherford, Tenn.[1]	$76,400	$4,819,000	$4,486,000	$333,000

[1] Sec. 608 project.

CARNER PROJECT

Sponsor: Jack Carner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kingsway Gardens, Brooklyn, N. Y.	$91,908	$2,440,530	$1,986,384	$454,146

COHEN PROJECTS

Sponsor: Ben Cohen.
Associate: Herman Cohen.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Monroe Park Apartments, Wilmington, Del.	[2] $6,000	[2] $5,296,000	[2] $4,776,000	[2] $520,000
Silver Hill Apartments, Suitland, Md.	400	1,496,700	1,376,000	120,700
Highland Apartments, Gloucester, N. J.	1,000	2,264,000	2,240,000	24,000
Penn Manor Apartments, Camden, N. J.	[3] 4,000	[3] 2,465,200	[3] 2,330,000	[3] 135,200
Camp Allen Apartments (Wherry project), Norfolk, Va.	100	2,412,700	1,961,700	451,000
Howard Apartments, Portsmouth, Va.	([5])	[4] 297,200	[4] 276,000	[4] 21,200
Lee Housing, Craddock, Va.	([5])	1,194,500	1,060,000	134,500
Riverdrive Apartments, Newport News, Va.	100	1,684,000	1,381,000	303,000
River Point Apartments, Norfolk, Va.	100	1,710,000	1,585,000	125,000
Benning Apartments, Washington, D. C.	1,000	546,600	567,600	−21,000
Eastern Avenue Apartments, Washington, D. C.	[3] 18,000	[3] 541,000	[3] 560,000	[3] −19,000
Total	30,700	19,907,900	18,113,300	1,794,600

[1] Herman Cohen has an interest in Penn Manor.
[2] Combined figures for 3 project corporations.
[3] Combined figures for 4 project corporations.
[4] Combined figures for 2 project corporations.
[5] Not available.

DILLER-WEBER PROJECTS

Sponsors: R. S. Diller, and Arthur B. Weber.
Associates: Irving L. Kalsman,[1] Herman Kranz,[2] and David Salot.[2]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Baldwin Gardens Co, Los Angeles, Calif.	$1,000	$2,288,600	$2,061,446	$227,154
Wilshire-La Cienega Gardens, Los Angeles, Calif.	39,000	1,937,600	1,827,211	110,389
Monte Bello Gardens, Monte Bello, Calif.	[3] 37,000	[3] 540,000	[3] 505,000	[3] 35,000
Total	77,000	4,766,200	4,383,657	362,543

[1] Kalsman had an interest in Baldwin Gardens.
[2] Kranz and Salot had an interest in Wilshire-La Cienega Gardens.
[3] Combined figures for 10 project corporations.

DONOVAN PROJECTS

Sponsor: Richard Donovan.

Projects	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Skyway Homes, Inc., Rapid City, S. Dak.[1]	$25,025	$3,413,000	$3,240,580	$172,420
Meadow Brook Manor, Minneapolis, Minn[1]	24,875	4,634,800	4,547,997	86,803
Total	49,900	8,047,800	7,788,577	259,223

[1] Sec. 803 project.

EDWARDS-CORCORAN PROJECTS

Sponsors: Wayne F. Edwards and Leonard R. Corcoran.
Associate: Edward A. Dwyer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Watson Boulevard Apartments, Rochester, N. Y	$3,000	$340,000	$319,000	$21,000
Chapel Courts, Hampton, Va	(1)	144,000	128,000	16,000
Total	3,000	484,000	447,000	37,000

[1] Not available.

FIRKS PROJECTS

Sponsor: Samuel Firks.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Holly Park Knolls, Englewood, Calif	1,000	$2,615,000	$2,627,000	−$12,000
Astor Building Co., Los Angeles, Calif	5,000	199,500	192,145	7,355
Barclay Building Co., Los Angeles, Calif	5,000	145,000	137,689	7,311
Chase Building Co., Los Angeles, Calif	5,000	173,200	164,488	8,712
Drake Building Co., Los Angeles, Calif	5,000	173,200	163,821	9,379
Ellen Building Co., Los Angeles, Calif	5,000	173,200	161,593	11,607
Franklin Building Co., Los Angeles, Calif	5,000	163,700	155,063	8,637
Grant Building Co., Los Angeles, Calif	5,000	173,200	163,953	9,247
Howe Building Co., Los Angeles, Calif	5,000	143,500	135,893	7,607
Indiana Building Co., Los Angeles, Calif	5,000	145,000	137,762	7,238
Jefferson Building Co., Los Angeles, Calif	5,000	173,200	162,284	10,916
Kentucky Building Co., Los Angeles, Calif	5,000	175,800	167,982	7,818
Lennox Building Co., Los Angeles, Calif	5,000	197,500	188,128	9,372
Magna Building Co., Los Angeles, Calif	5,000	134,400	126,603	7,797
Norse Building Co., Los Angeles, Calif	5,000	134,400	126,248	8,152
Olimpia Building Co., Los Angeles, Calif	5,000	134,400	126,622	7,778
Prescott Building Co., Los Angeles, Calif	5,000	134,400	126,643	7,757
Quincy Building Co., Los Angeles, Calif	5,000	145,200	139,591	5,609
Raleigh Building Co., Los Angeles, Calif	5,000	145,200	138,411	6,789
Saxon Building Co., Los Angeles, Calif	5,000	158,400	153,876	4,524
Thorne Building Co., Los Angeles, Calif	5,000	145,200	138,124	7,076
University Building Co., Los Angeles, Calif	5,000	158,400	154,403	3,997
Total	106,000	5,941,000	5,788,322	152,678

FISHER PROJECTS

Sponsors: Martin Fisher, Larry Fisher, and Zachary Fisher.
Associate: Jarco Bros.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lynn Terrace Apartments, Kew Gardens, N. Y.	[2] $2,000	[2] $2,499,400	[2] $2,281,000	[2] $218,400
Bennett Arms, Inc., New York, N. Y.	1,000	569,000	534,000	35,000
Woodbriar Manor, Jackson Heights, Long Island, N. Y.	1,000	5,037,300	4,063,085	974,215
Total	4,000	8,105,700	6,878,085	1,227,615

[1] Jarco Bros. had an interest in Bennett Arms.
[2] Combined figures for 2 project corporations.

GARVEY PROJECTS

Sponsor: W. W. Garvey.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Batten Apartments, Inc., Wichita, Kans.	$52,000	$1,105,000	$902,567	$202,433
Fort Riley Apartments, Geary, Kans.[1]	49,000	2,931,000	2,809,000	122,000
Parkwood Village, Wichita, Kans.	48,000	782,500	680,744	101,756
Total	149,000	4,818,500	4,392,311	426,189

[1] Sec. 803 project.

GLASSMAN PROJECT

Sponsor: Herbert Glassman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Glass Manor, Prince Georges County, Md.	[1] $5,075	[1] $6,249,000	[1] $5,997,898	[1] $251,102

[1] Combined figures for 3 project corporations.

GORDON-PRESTON PROJECTS

Sponsors: B. Gordon, Jr., E. J. Preston, and H. W. Hutman.
Associates: Investors Diversified Services, E. M. Bros, Carl Budwesky, and Don A. Loftus.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Shirley Duke Apartments, Section 1, Arlington, Va.	$1,000	$2,674,000	$2,199,742	$474,258
Shirley Duke Apartments, Section 2, Arlington, Va.	1,000	2,598,000	2,266,041	331,959
Shirley Duke Apartments, Section 3, Arlington, Va.	1,000	1,840,000	1,540,756	299,244
Shirley Duke Apartments, Section 4, Arlington, Va.	1,000	2,390,000	1,976,719	413,281
Shirley Duke Apartments, Section 5, Arlington, Va.	1,000	2,288,000	1,937,242	350,758
Shirley Duke Apartments, Section 6, Arlington, Va.	1,000	2,056,000	1,806,117	249,883
Total	6,000	13,846,000	11,726,617	2,119,383

GOTTLIEB PROJECT

Sponsor: Dr. Samuel D. Gottlieb.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
District Heights Apartments, District Heights, Md.	$3,800	$5,796,900	$4,500,000	$1,296,900

GROSS-MORTON PROJECT

Sponsors: Alfred Gross, George M. Gross, and Lawrence Morton.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Glen Oaks Village, Bellerose, Long Island, N. Y.	[1] $100,000	[1] $26,759,000	[1] $21,740,367	[1] $5,018,633 (L)

[1] Combined figures for 11 project corporations.

GUTERMAN-MASCIOLI PROJECT

Sponsors: Julius Guterman, Samuel Guterman, and Joseph Mascioli.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Great Neck Oaks, Great Neck, N. Y.	[1] $30,000	[1] $5,609,439	[1] $4,620,512	[1] $1,408,927 (L)

[1] Combined figures for 3 project corporations.

HAHN-KNOBLER PROJECTS

Sponsors: William P. Hahn and Aaron B. Knobler.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
WPH Apartments, Bayside, N. Y.	$5,000	$1,218,078	$1,025,800	$192,278
SHR Apartments, Bayside, N. Y.	5,000	1,989,651	1,447,000	542,651
ABK Apartments, Bayside, N. Y.	5,000	897,160	754,456	142,704
Total	15,000	4,104,889	3,227,256	877,633

HESS-OLIVIERI PROJECTS

Sponsors: Haskell Hess and Emilio Olivieri.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alpine Apartments, Jackson Heights, N. Y.	$2,000	$1,887,600	$1,717,600	$170,000
Elmwood Gardens, Queens, N. Y.	[1] 2,000	[1] 1,159,600	[1] 1,055,953	[1] 103,647
Iroquois Apartments, Hollis, N. Y.	2,000	832,000	636,930	195,070
Jeffrey Gardens, Bayside, N. Y.	[2] 2,000	[2] 2,357,755	[2] 2,020,056	[2] 337,699
Palo Alto Apartments, Hollis, N. Y.	5,000	817,650	708,051	109,599
Louden Gardens, Albany, N. Y.	2,000	2,716,854	2,765,910	−49,056
Total	15,000	9,771,459	8,904,500	866,959

[1] Combined figures for 5 project corporations.
[2] Combined figures for 2 project corporations.

KASKELL PROJECTS

Sponsor: Alfred Kaskell.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Forest Hills Terrace, Bloomfield, N. J.	$1,000	$1,543,000	$1,647,000	−$104,000
Howard Terrace, Forest Hills, N. Y.	1,000	4,255,580	4,225,000	30,580
Anita Terrace, Forest Hills, N. Y.	1,000	4,904,800	5,090,000	−185,200
Central Gardens, No. 1, Forest Hills, N. Y.	1,000	2,858,000	3,090,694	−232,694
Central Gardens, No. 2, Forest Hills, N. Y.	1,000	1,304,200	1,425,000	−120,800
Hunter Gardens, Flushing, N. Y.	5,000	1,866,800	1,620,000	246,900
Churchill Manor, Kew Gardens, N. Y.	1,000	1,777,156	1,579,958	197,198
Fleetwood, No. 1, Fleetwood, N. Y.	1,000	2,099,500	1,929,000	170,500
Fleetwood, No. 2, Fleetwood, N. Y.	1,000	2,099,500	1,966,000	133,500
Linden Grove Apartments, New Hyde Park, N. Y.	1,000	1,371,186	1,396,000	−24,814
Dara Gardens, Flushing, N. Y.	1,000	4,657,900	4,316,000	341,900
Forest Hills Manor, Bloomfield, N. J.	1,000	2,845,000	3,303,492	−458,492
Normandie Apartments, Newark, N. J.	1,000	917,500	1,068,977	−151,477
Forest Hills Apartments, Bloomfield, N. J.	1,000	2,349,000	2,506,000	−157,000
Total	18,000	34,849,122	35,163,121	−313,999

KAVY-HIRSH PROJECT

Sponsors: Alex. P. Hirsh, Henry Hirsh, Louis Benedict, and Morris Kavy

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Farragut Gardens, Inc., Brooklyn, N. Y.	[1] $10,000	[1] $23,721,700	[1] $19,093,270	[1] $4,628,430 (L)

[1] Combined figures for 5 project corporations.

KEELTY PROJECTS

Sponsors: James J. Keelty, Jr., Mrs. James J. Keelty, Joseph S. Keelty, James Dorment, and Mrs. James Dorment.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rodgers Forge Apartments, No. 1, Baltimore, Md.	$3,000	$2,106,000	$1,691,676	$414,324
Rodgers Forge Apartments, No. 2, Baltimore, Md.	3,000	2,028,800	1,608,528	420,272
Total	6,000	4,134,800	3,300,204	834,596

KESSLER-ROSEN PROJECT

Sponsors: Alex Kessler, Jean Van Dyke Kessler, Harry Rosen, and Joseph Pirozzi.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Braddock Gardens Apartments, Inc., Queens Village, N. Y.	$750	$1,359,125	$1,040,400	$318,725

KLEIN PROJECTS

Sponsor: Kalman Klein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Langdale Corp., Bellerose, N. Y.	[1] $100,000	[1] $3,119,834	[1] $2,402,203	[1] $717,631
Austin Gardins, Forest Hills, N. Y.	1,000	1,293,963	1,217,549	76,414
Total	101,000	4,413,797	3,619,752	794,045

[1] Combined figures for 2 project corporations.

KNOTT PROJECTS

Sponsors: Charles Knott, Martin Knott, and John Knott.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Chesapeake Gardens, No. 1, Harford County, Md.[1]	[2] $9,000	$3,256,000	$2,794,616	$461,384
Chesapeake Gardens, No. 2, Harford County, Md.[1]	9,000	1,587,600	1,332,484	255,116
Chesapeake Gardens, No. 3, Harford County, Md.[1]		1,588,800	1,242,431	346,369
Total	18,000	6,432,400	5,369,531	1,062,869

[1] Sec. 908 project.
[2] Combined figure on projects 1 and 3.

KRAUSS-ZAGER PROJECTS

Sponsors: Max Krauss and Alexander Zager.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Midway Gardens Apartments, Pasadena, Tex.	$2,500	$338,520	$245,000	$93,520
Shepherd Gardens Apartments, Houston, Tex.	127,000	1,482,300	1,098,726	383,574
Total	129,500	1,820,820	1,343,726	477,094

LEVITT PROJECT

Sponsors: William J. Levitt and Alfred S. Levitt.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Levittown, Long Island, N. Y.[1]	$50,000	$29,946,500	$24,169,000	$5,777,500

[1] Section 603 project.

LIPPMAN PROJECTS

Sponsors: Leo A. Lippman and Maurice B. Lippman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Admiral Homes, Inc., Indianapolis, Ind.	$99,400	$486,000	$458,030	$27,970
Arlington Apartments, Inc., Indianapolis, Ind.	180,000	1,458,000	1,309,751	148,249
Barrington Heights, Inc., Indianapolis, Ind.	188,000	1,738,200	1,641,459	96,741
Blackwood Apartments, Inc., South Bend, Ind.	169,000	1,466,100	1,461,791	4,309
Canterbury Courts, Inc., Indianapolis, Ind.	70,500	631,800	624,722	7,078
Commodore Homes, Inc., Indianapolis, Ind.	158,750	972,000	932,836	39,164
Eddy-Colfax Apartments, Inc., South Bend, Ind.	20,700	178,200	186,313	8,113
Frontenac Apartments, Inc., Indianapolis, Ind.	104,000	818,100	761,994	56,106
Granville Apartments, Inc., Indianapolis, Ind.	46,500	413,100	373,444	39,656
Kitley Corporation, Indianapolis, Ind.	84,200	571,700	545,745	25,955
Mincar Homes, Inc., Indianapolis, Ind.	16,300	154,200	145,630	8,570
Norden Court, Inc., Indianapolis, Ind.	101,500	599,400	561,992	37,408
Sherwood Apartments, Inc., Indianapolis, Ind.	98,000	882,900	818,357	64,543
Shoreland Towers, Inc., Indianapolis, Ind.	217,000	1,838,700	1,768,801	69,899
Webster Homes, Inc., Indianapolis, Ind.	45,600	275,400	261,364	14,036
West Arlington Homes, Inc., Indianapolis, Ind.	81,500	471,700	450,922	20,778
Windermere Apartments, Inc., Marion, Ind.	32,000	283,500	259,787	23,713
Total	[1] 1,701,950	13,239,000	12,562,938	676,062

[1] Of the total corporate capital stock, $24,180 was issued for cash, $768,700 was issued for land, and $909,070 was issued for a contract fee.

LOFTUS PROJECT

Sponsor: Don A. Loftus.
Associates: D. E. Ryan, C. J. Ryan, Jack F. Chrysler, Webster R. Robinson, and Marshall Robinson.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Beverly Manor, Columbus, Ohio	[1] $4,000	[1] $8,826,400	[1] $7,690,999	[1] $1,135,401

[1] Combined figures for 4 project corporations.

MINKIN PROJECTS

Sponsor: David Minkin.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Riverview Terrace Corp., Flushing, Long Island, N. Y.	$300	$1,400,000	$1,260,000	$140,000
Pomonok Crest Apartments, Kew Gardens, Long Island, N. Y.	300	1,525,000	1,375,000	150,000
Franklin Gardens, Inc., Flushing, Long Island, N. Y.	1,500	1,100,588	881,365	219,223
Total	2,100	4,025,588	3,516,365	509,223

MINTZ PROJECT

Sponsor: Louis Mintz.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kingsway Development, Inc., Brooklyn, N. Y.	$1,000	$1,288,818	$1,150,398	$138,420

MURCHISON PROJECTS

Sponsors: Tecon Realty Corp, (Clint Murchison, Jr., and J. D. Murchison) and Centex Construction Co., (Tom Lively, Fletcher Lippert, and Ira Rupley).

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Randolph Air Force Base, Bexar, Tex.[1]	[2] $10,000	[2] $5,142,100	[2] $4,572,100	$570,000

[1] Sec. 803 project.
[2] Combined figures for 2 project corporations.

MUSS-SCHAFRAN PROJECTS

Sponsors: Alexander Muss and Samuel Schafran.[1]
Associates: Nathan Manilow [2] and Jacob L. Rappaport.[3]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Mitchell Manor 1, Nassau, N. Y.[4]	$1,000	$2,204,398	$1,971,644	$232,754
Mitchell Manor 2, Nassau, N. Y.[4]	1,000	3,189,400	2,808,542	380,858
Parkway Gardens, Brooklyn, N. Y.	108,913	1,078,200	952,333	125,867
Yantacaw Village, Nutley, N. J.	([5])	455,000	455,000	
Boulevard Gardens, Bayonne, N. J.	88,775	1,675,000	1,536,858	138,142
Sunset Gardens, Nutley, N. J.	20,995	595,750	676,302	−80,552
Total	329,643	9,197,748	9,400,679	796,969

[1] No interest in Yantacaw Village or Sunset Gardens.
[2] Manilow had an interest in Yantacaw Village.
[3] Rappaport had an interest in Mitchell Manors 1 and 2, and Parkway Gardens.
[4] Sec. 803 project.
[5] Not available.

NEISLOSS-BRONSTEIN PROJECTS

Sponsors: Benjamin Neisloss, Harry Neisloss, and Benjamin Bronstein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Brookside Gardens, Somerville, N. J.	$30	$3,168,500	$2,642,884	$525,616
Oakland Gardens (Springfield), Queens, N. Y.	30	4,294,800	3,919,039	375,761
Oakland Gardens (Hill), Queens, N. Y.	30	1,983,800	1,822,727	161,073
Total	90	9,447,100	8,384,650	1,062,450

ORLIAN PROJECTS

Sponsor: Israel Orlian.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Congress Gardens, Brooklyn, N. Y.	$400	$989,828	$751,671	$238,157
Boulevard Gardens, Forest Hills, N. Y.	400	2,704,592	2,365,850	338,742 (L)
Floral Park, North Bergen, N. J.	10,000	2,177,500	2,029,411	148,089
Floral Park, No. 2, North Bergen, N. J.	10,000	883,500	904,978	−21,478
Total	20,800	6,755,420	6,051,910	703,510

OSIAS PROJECTS

Sponsor: Harry L. Osias.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Jackson Apartments, No. 1, Inc., Jackson Heights, N. Y.	$1,000	$871,855	$711,031	$160,824
Jackson Apartments, No. 2, Inc., Jackson, Heights, N. Y.	1,000	872,870	719,692	153,178
Kew Gardens Apartments, Inc., Queens, N. Y.	[1] 12,000	[1] 9,788,425	[1] 8,747,588	[1] 1,040,837
Kew Gardens Hills, No. 2, Inc., Queens, N. Y.	1,000	3,246,401	2,477,614	768,787
Third Kew Gardens Hills, Inc., Queens, N. Y.	1,000	3,793,590	2,704,245	1,089,345
Kew Gardens Hills, Inc., No. 4, Queens, N. Y.	1,000	4,715,898	3,358,318	1,357,580
Kew Garden Hills Apartments, Inc., Queens, N. Y.	1,000	3,622,850	3,583,436	39,414
102d St. Apartments, No. 1, Inc., Forest Hills, N. Y.	1,000	1,370,022	1,239,145	130,877
102d St. Apartments, No. 2, Inc., Forest Hills, N. Y.	1,000	1,211,265	1,083,051	128,214
Total	20,000	29,493,176	24,624,120	4,869,056

[1] Combined figures for 12 project corporations.

PAGE MANOR PROJECT

Sponsors: David Muss and Norman K. Winston.
Associates: Link Cowan, Ernest Cowan, and Tecon Realty Corp.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Page Manor, Dayton, Ohio[2]	[3] $800	[3] $17,377,500	[3] $16,613,439	[3] $764,061

[1] Principal owners of Tecon are Clint Murchison, Jr., and J. D. Murchison.
[2] Sec. 608 project.
[3] Combined figures for 4 project corporations.

PICKMAN PROJECTS

Sponsor: Morton Pickman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Hollis Crest Apartments, Holliswood, N. Y.	$1,800	$1,574,450	$1,546,761	$27,689
Briarwood Gardens, Forest Hills, Long Island, N. Y.	6,000	4,559,240	4,080,098	479,142
Parkway Crest Apartments, Holliswood, N. Y.	1,800	3,229,230	3,148,244	80,986
Whitehall Crest Apartments, Holliswood, N. Y.	1,800	2,505,984	2,427,433	78,551
Foot Hill Terrace Apartments, Holliswood, N. Y.	1,800	1,682,986	1,639,733	43,253
Arrowbrook Gardens, Flushing, Long Island, N. Y.	2,000	2,755,250	2,491,190	264,060
Total	15,200	16,307,140	15,333,459	973,681

PUNIA-MARX PROJECTS

Sponsors: Charles Punia and William Marx.
Associate: Israel Orlian.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Clinton Terrace, Inc., Nassau, N. Y.	[1] $4,000	$1,928,308	$1,945,068	−$17,760
Larchmont Properties, Westchester, N. Y.	134,500	2,315,200	2,446,240	−131,040
Barnes Gardens, Bronx, N. Y.	400	893,814	964,855	−71,041 (L)
Greystone Gardens, Bronx, N. Y.	400	1,190,497	1,338,403	−147,906 (L)
Hutton Lafayette, West Orange, N. J.	5,000	2,063,790	2,118,565	−54,775
Harbor Gardens, Brooklyn, N. Y.	400	1,483,321	1,230,302	253,019
Woodcliff Hills, No. 1, North Bergen, N. J.	400	2,127,840	1,994,388	133,452
Woodcliff Hills, No. 2, North Bergen, N. J.	400	1,385,280	1,326,230	59,050
Rusken College Gardens, Forest Hills, N. Y.	250	2,299,795	2,210,203	89,502 (L)
Oliver Gardens, Brooklyn, N. Y.	400	2,324,560	1,972,777	351,783 (L)
Queens College Gardens, Kew Gardens, N. Y.	400	3,750,000	3,430,248	319,752 (L)
Quality Gardens, Forest Hills, N. Y.	450	2,594,870	2,442,351	152,519 (L)
Sun Dawn Gardens, Brooklyn, N. Y.	5,000	1,556,464	1,396,782	159,682
Edwark Properties Apartments, Inc., Brooklyn, N. Y.	400	574,100	530,526	43,574 (L)
Narrows Gardens, Brooklyn, N. Y.	400	669,340	579,868	89,472 (L)
Monticello Gardens, Jackson Heights, N. Y.	400	1,575,115	1,293,877	281,238 (L)
Verona College Gardens, Forest Hills, N. Y.	400	1,691,137	1,430,893	260,244 (L)
Thurman College Gardens, Forest Hills, N. Y.	400	1,577,482	1,365,846	211,636 (L)
Blossom Gardens, Flushing, N. Y.	400	1,726,565	1,604,776	121,789 (L)
Aero Gardens, Forest Hills, N. Y.	400	2,704,592	2,325,668	378,924 (L)
Dahill Gardens, Inc., Brooklyn, N. Y.	500	748,967	669,444	79,523
Continental Gardens, Forest Hills, N. Y.	2,500	1,839,116	1,633,376	205,740 (L)
Total	157,800	39,020,153	36,251,776	2,768,377

[1] Orlian had an interest in Woodcliff Hills 1 and 2, Rusken College Gardens, Sun Dawn Gardens, and Aero Gardens.

QUEENS VALLEY DEVELOPMENT CO. PROJECT

Sponsors: [1] Francis Taylor, Sir Godfrey Way Mitchell, Taylor Woodrow, Ltd., Owen Fisher, Fayette Investment Trust, Ltd., and John L. Turner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alley Park Homes, Bayside, Queens, N. Y.	$6,000	$6,196,500	$5,874,386	$322,114

[1] Stockholders of Queens Valley Development Co.—all British subjects.

RODMAN-FINK PROJECTS

Sponsors: Samuel Rodman and Max Fink.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Atlantic Gardens, Washington, D. C. Chesapeake Terrace, Washington, D. C.	[1] $5,000	[1] $1,850,266	[1] $1,508,266	[1] $342,000

[1] Combined figures for 3 project corporations.

ROSE-COYNE PROJECTS

Sponsors: Charles Rose, Marshall Coyne, and Arthur Hamburger.
Associates: Irving Rosoff and Samuel Rosoff.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Jefferson Village Apartments, Falls Church, Va.	[1] $5,000	[1] $4,852,500	[1] $4,571,065	[1] $281,435
Quebec House, Washington, D. C.	[2] 2,000	[2] 7,388,000	[2] 6,919,163	[2] 468,837
Total	7,000	12,240,500	11,490,228	750,272

[1] Combined figures for 10 project corporations.
[2] Combined figures for 2 project corporations.

ROTH-SCHENKER PROJECTS

Sponsors: Samuel J. Roth, Joel W. Schenker, and George Gregory.
Associate: Harry Ginsberg.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Elmwood Gardens, East Paterson, N. J.; Elmwood Knolls, East Paterson, N. J.	[2] $2,000	[2] $5,917,600	[2] $5,128,878	[2] $788,722
Marine Terrace, Astoria, N. Y.; Gregory Apartments, Astoria, N. Y.; Elisabeth Apartments, Astoria, N. Y.	[3] 3,000	[3] 11,429,000	[3] 9,881,427	[3] 1,547,573
Total	5,000	17,346,600	15,010,305	2,336,295

[1] Ginsberg had an interest in Elmwood Gardens.
[2] Combined figures for Elmwood Gardens and Elmwood Knolls.
[3] Combined figures for Marine Terrace, Gregory Apartments, and Elisabeth Apartments.

RUBENSTEIN PROJECTS

Sponsor: Hyman Rubenstein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Williams Field Air Force Base, Maricopa, Ariz.[1]	----------	$3,324,100	$3,288,000	$36,100
Davis-Monthan Air Force Base, Pima, Ariz.[1]	----------	4,429,900	4,151,388	278,512
Total	[2] $468,600	7,754,000	7,439,388	314,612

[1] Sec. 803 project.
[2] Combined figure for both projects.

SARNER-SOLOW PROJECTS

Sponsors: Sidney Sarner and Ralph J. Solow.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Linwood Park, Section I, Inc., Teaneck, N. J.	[1] $13,000	[1] $8,875,000	[1] $6,662,500	[1] $2,212,500
Teaneck Gardens, Teaneck, N. J.	1,000	1,667,000	1,490,000	177,000
Total	14,000	10,542,000	8,152,500	2,389,500

[1] Combined figures on 13 project corporations.

SCHNEIDER PROJECTS

Sponsor: Jacob Schneider.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lanson Gardens, Brooklyn, N. Y.	$1,000	$1,194,800	$1,063,053	$131,747
Roder Gardens, Brooklyn, N. Y.	1,000	770,400	680,688	89,712
Total	2,000	1,965,200	1,743,741	221,459

SCHNEIDER-FLOSSBURG PROJECTS

Sponsors: Fred Schneider and Melvin Flossburg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rhode Island Plaza, Washington, D. C.	$200	$3,520,000	$3,250,000	$270,000
Parkchester Courts, Washington, D. C.	[1] 60,000	[1] 1,980,000	[1] 1,860,000	[1] 120,000
Total	60,200	5,500,000	5,110,000	390,000

[1] Combined figures for 4 project corporations.

SCHNITZER PROJECTS

Sponsor: Harold J. Schnitzer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Great Falls Air Base, Great Falls, Mont.[1]	$10,200	$3,208,600	$3,126,593	$82,007
Hill Air Force Base, Salt Lake City, Utah [1]	10,400	2,806,376	2,723,366	83,010
Total	20,600	6,014,976	5,849,959	165,017

[1] Sec. 803 project.

SHARP PROJECTS

Sponsor: Carl C. Sharp.
Associates: Stewart Morris and Carlos Morris.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bayou Park Apartments, Houston, Tex.	$89,900	$1,282,500	$949,148	$333,352
Bayou Lake Apartments, Pasadena, Tex.	11,900	415,000	323,000	92,000
Total	101,800	1,697,500	1,272,148	425,352

SHELBY CONSTRUCTION CO. PROJECTS

Sponsors: Paul Kapelow and Louis Leader.
Associate: Alex Kornman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Claiborne Towers, New Orleans, La.	[1] $700,000	[1] $9,230,600	[1] $9,133,484	[1] $97,116
Parkchester Group, New Orleans, La.	[2] 656,100	[2] 10,845,600	[2] 9,099,412	[2] 1,746,188
Audubon Park Group, St. Louis, Mo.	[3] 328,700	[3] 11,328,351	[3] 11,770,351	[3] —442,000
Roselawn Apartments, Natchez, Miss.	[4] 121,600	[4] 1,741,600	[4] 1,529,289	[4] 212,311
Total	1,806,400	33,156,151	32,532,536	1,613,615

[1] Combined figures for 2 project corporations.
[2] Combined figures for 11 project corporations.
[3] Combined figures for 4 project corporations.
[4] Combined figures for 8 project corporations.

SHPARAGO-SCHMIDT PROJECT

Sponsors: Carl Shparago, Hannah Shparago, Frank A. Schmidt, and Fannye Schmidt.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
The Town House, Shreveport, La	$64,998	$2,703,000	$2,417,000	$286,000

SILBERMAN-DE CHARIO PROJECTS

Sponsors: Saul Silberman and Ralph De Charlo.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Fairfax Gardens, Baltimore, Md	$1,000	$1,535,800	$1,550,849	−$15,049
Uplands Apartments, Inc., Baltimore, Md	5,000	3,742,000	3,514,000	228,000
Uplands Apartments, B, Baltimore, Md	1,000	3,900,000	3,348,000	552,000
Fort George Meade, Anne Arundel, Md.[1]	2,000	2,832,800	2,537,000	295,800
Total	9,000	12,010,600	10,949,849	1,060,751

[1] Sec. 803 project.

SMALL-STERN PROJECT

Sponsors: Albert Small and David L. Stern.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Idaho Terrace, Washington, D. C	$12,000	$1,758,750	$1,573,287	$185,463

SPORKIN PROJECTS

Sponsor: Charles Sporkin.
Associates: Herbert Du Bois,[1] Thomas R. Edwards,[1] Eve Lowenthal,[2] Nat Sporkin,[2] Maurice Sporkin,[2] and Milton Lundy.[2]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Parkway Apartments, Inc., Haddonfield, N. J	$50,000	$2,929,600	$2,679,600	$250,000
Clover Hills, Mount Holly, N. J	2,700	1,620,000	1,340,000	280,000
Margate Gardens, Margate City, N. J	10,000	648,000	658,000	−10,000
Total	62,700	5,197,600	4,677,600	520,000

[1] Du Bois and Edwards had an interest in Parkway Apartments and Clover Hills.
[2] Lowenthal, Nat and Maurice Sporkin, and Lundy had an interest in Margate Gardens.

TILLES PROJECT

Sponsor: Gilbert Tilles.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Knightsbridge Gardens, Great Neck, N. Y	$10,000	$1,093,352	$853,999	$239,353

TISHMAN PROJECT

Sponsors: Norman Tishman, David Tishman, and Robert Tishman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rego Park Apartments, Elmhurst, N. Y.	[1] $2,000	[1] $6,731,839	[1] $4,987,177	[1] $1,744,662

[1] Combined figures for 2 project corporations.

TRICE PROJECT

Sponsor: Franklin A. Trice.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lewis Gardens, Henrico County, Va.	[1] $526,000	[2] $3,884,400	[2] $2,785,400	[2] $1,099,000

[1] Land worth $13,897 was exchanged for stock valued at $526,000.
[2] Combined figures for 5 project corporations.

TRUMP-TOMASELLO PROJECT

Sponsors: Fred C. Trump and William Tomasello.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Beach Haven, Brooklyn, N. Y.	[1] $249,000	[1] $25,177,200	[1] $22,158,200	[1] $3,019,000

[1] Combined figures for 6 project corporations.

WARNER-KANTER PROJECTS

Sponsors: Marvin L. Warner and Joseph H. Kanter.
Associate: William MacDonald.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Sheridan Apartments, Birmingham, Ala.	$23,000	$264,600	$261,029	$3,571
Marlin Courts, Birmingham, Ala.	2,000	128,000	128,000	
Washington Park, Birmingham, Ala.	17,000	355,000	325,328	29,672
South Park Apartments, Birmingham, Ala.	24,000	935,300	870,145	65,155
Jan-Mar Apartments, Birmingham, Ala.	6,100	100,000	99,734	266
Park Manor, Birmingham, Ala.	30,000	462,200	450,007	12,193
Essex House, Birmingham, Ala.	76,000	1,221,595	1,224,172	−2,577
Canterbury Gardens, Cincinnati, Ohio	121,000	2,881,182	2,316,896	564,286
Stratford Manor, No. 1, Cincinnati, Ohio.	205,000	4,280,400	3,502,567	777,833
Stratford Manor, No. 2, Cincinnati, Ohio.	160,000	2,964,500	2,475,820	488,680
Canterbury Gardens, No. 1, St. Louis, Mo.	135,000	3,763,065	3,474,448	288,617
Canterbury Gardens, No. 2, St. Louis, Mo.	135,000	3,663,692	3,547,071	116,621
Essex House, Indianapolis, Ind.	176,000	3,544,398	3,428,378	116,020
Total	[2] 1,110,100	24,563,932	22,103,595	2,460,337

[1] McDonald advanced $250,000 for purchase of land for Canterbury Gardens Nos. 1 and 2, St. Louis, Mo.
[2] Capital stock of $519,100 was redeemed upon completion of projects.

WEINBERG PROJECTS

Sponsor: Bernard Weinberg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Pleasantville Manor Apartments, Pleasantville, N. J.	$2,000	$1,680,000	$1,452,000	$228,000
Barrington Manor Apartments, Barrington, N. J.	2,000	2,323,000	1,840,033	482,967
Total	4,000	4,003,000	3,292,033	710,967

WEINGART-BOYER PROJECT

Sponsors: Ben Weingart and Louis Boyer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Stocker-Crenshaw, Los Angeles, Calif.	[1] $420,200	[1] $10,066,300	[1] $9,801,436	[1] $264,874

[1] Combined figures for 43 project corporations.

WHITTENBERG PROJECTS

Sponsor: H. G. Whittenberg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Arcadia Apartments, Louisville, Ky.	$12,900	$649,600	$596,438	$53,162
Do	26,800	1,254,400	1,151,929	102,471
Do	12,600	515,200	472,087	43,113
Total	52,300	2,419,200	2,220,454	198,746

WINSTON-MUSS PROJECTS

Sponsors: Norman K. Winston and David Muss.
Associates: Louis H. Kaplan, Henry W. Penn, and Mika Stiftung.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Auburndale Terrace Apartments, Auburndale, N. Y.	$1,000	$620,275	$599,186	$21,089
Auburndale Village, Auburndale, N. Y.	[2] 4,000	[2] 711,206	[2] 703,164	[2] 8,042
Auburndale Gardens, Inc., Auburndale, N. Y.	1,000	627,985	584,983	43,002
Birchwood Manor, Inc., Queens, New York, N. Y.	[2] 8,000	[2] 1,835,233	[2] 1,739,530	[2] 95,703
Maple Manor, Inc., Auburndale, N. Y.	1,000	670,830	629,374	41,456
Oaktree Village, Inc., Section 1, Queens, New York, N. Y.	[4] 2,000	[4] 1,130,017	[4] 1,030,571	[4] 99,446
Pine Terrace Apartments, Inc., Section 1, Auburndale, N. Y.	[4] 2,000	[4] 141,058	[4] 164,525	[4] −23,467
Beechwood Village, Inc., Queens, New York, N. Y.	1,000	800,000	745,224	54,776
Billy Mitchell Village, Inc., San Antonio, Tex.	3,000	3,220,200	2,742,500	477,700
Billy Mitchell Village, Nos. 2 and 3, San Antonio, Tex.[2]	[4] 6,000	[4] 5,048,083	[4] 4,495,934	[4] 552,149
Total	29,000	14,804,887	13,434,991	1,369,896

[1] Kaplan, Penn, and Mika Stiftung, a Swiss corporation, had an interest in the Billy Mitchell projects
[2] Sec. 803 projects.
[3] Combined figures for 4 project corporations.
[4] Combined figures for 2 project corporations.

WOHL-BLEACHER PROJECTS

Sponsors: Alfred Wohl, Morris Bleacher, and Charles K. Itchkow.
Associate: Arthur Wohl.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kew Terrace, Inc., Flushing, N. Y.	$3,000	$1,830,815	$1,585,272	$245,543
Kew Terrace, No. 2, Flushing, N. Y.	3,000	1,280,085	1,089,695	190,390
Total	6,000	3,110,900	2,674,967	435,933

WOLOSOFF PROJECTS

Sponsor: Alvin B. Wolosoff.
Associates: Morty Wolosoff[1] and David Minkin.[2]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alley Pond Park, Hollis, N. Y.	[3] $3,000	[3] $4,652,000	[3] $4,176,423	[3] $475,577
Lakeview Apartments, Queens, New York, N. Y.	[3] 10,000	[3] 3,102,514	[3] 2,458,000	[3] 644,514
Total	13,000	7,754,514	6,634,423	1,120,091

[1] Morty Wolosoff had an interest in Alley Pond Park.
[2] Minkin had an interest in Lakeview Apartments.
[3] Combined figures for 3 project corporations.

WOODNER PROJECTS

Sponsor: Ian Woodner.[1]
Associates: Max Woodner and Beverly Woodner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Fayette Court, Inc., Alexander, Va.	$300	$419,400	$398,813	$20,587
Fenwood, Section A, Inc., Hempstead, N. Y.	500	757,600	615,345	142,255
Fenwood, Section B, Inc., Hempstead, N. Y.	500	1,026,100	833,492	192,608
Fenwood, Section C, Inc., Hempstead, N. Y.	500	721,500	586,024	135,476
Fenwood, Section D, Inc., Hempstead, N. Y.	425	1,269,600	1,031,207	238,393
Inwood Corp., Washington, D. C.	1,000	1,447,000	1,233,105	213,895
Manor Park Apartments, Sections 1 and 2, Wilmington, Del.	2,000	2,678,400	2,668,117	10,283
Terrace Corp., Washington, D. C.	2,000	772,000	731,477	40,523
Shipley Park Corp., Washington, D. C.	1,000	2,010,600	1,669,873	340,727
Columbia Heights, Section 4, Inc., Arlington, Va.	400	976,500	899,206	77,294
Jonathan Woodner, Inc., Washington, D. C.	10,000	200,000	192,328	7,672
Ruth Woodner, Inc., Washington, D. C.	10,000	137,000	132,149	4,851
University Hills, Inc., University Park, Md.	2,000	2,630,000	2,151,939	478,061
Crestwood Lake Apartments, Section 1, Yonkers, N. Y.	1,000	2,356,000	2,212,108	143,892 (L)
Crestwood Lake Apartments, Section 2, Yonkers, N. Y.	1,000	2,435,100	2,558,533	−123,433 (L)
Huntwood Apartments Corp., Washington, D. C.	1,000	1,267,000	1,536,993	−269,993 (L)
Rock Creek Plaza, Sections 1 and 2, Washington, D. C.	3,000	10,936,300	11,750,997	−814,697 (L)
Swifton Village, Section 1, Cincinnati, Ohio	36,000	1,063,360	1,042,865	20,495 (L)
Swifton Village, Section 2, Cincinnati, Ohio	52,000	1,528,680	1,498,804	29,876 (L)
Swifton Village, Section 3, Cincinnati, Ohio	75,000	2,182,230	2,200,173	−17,943 (L)
Swifton Village, Section 4, Cincinnati, Ohio	59,000	1,746,080	1,757,179	−11,099 (L)
Swifton Village, Section 5, Cincinnati, Ohio	139,000	4,014,460	4,090,687	−76,227 (L)
Chanute Apartments Corp., Champaign, Ill.[1]	125,000	1,603,800	2,080,724	−476,924
Chanute Gardens, Corp. Champaign, Ill.[1]	127,000	4,876,200	6,214,332	−1,338,132
Total	649,625	49,054,910	50,086,470	−1,031,560

[1] Sec. 803 projects.

YOUSEM-BIALAC PROJECT

Sponsors: Philip Yousem, Sam Bialac, and Jerry Bialac.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Union Housing, Los Angeles, Calif.	[1] $255,726	[1] $5,167,700	[1] $5,025,000	[1] $142,700

[1] Combined figures for 35 project corporations.

ZARETT-LANE PROJECT

Sponsors: Hyman H. Zarett and Sylvia Lane.
Associates: Jack Speigel,[1] and Isodore Lehrer.[1]

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bayshore Gardens, Brooklyn, N. Y.	$10,500	$1,370,607	$1,154,108	$215,899

[1] Speigel and Lehrer purchased Lane's ⅓ interest.

APPENDIX

OVER-ALL STATISTICS ON FHA HOUSING PROGRAM, 1934 TO JUNE 30, 1954

	Number of loans	Number of units	Original amount
Title I, sec. 2 (property improvement)	17,315,729	(1)	$7,956,271,146
Sec. 203	2,777,627	2,890,874	17,452,327,835
Sec. 207	662	68,830	357,123,431
Sec. 213	8,818	38,697	365,205,097
Sec. 603	624,652	690,006	3,645,259,907
Sec. 608	7,045	465,683	3,439,771,105
Sec. 803	236	74,085	596,228,420
Sec. 903	48,199	55,245	428,753,250

[1] Not applicable.

FEDERAL BUREAU OF INVESTIGATION REPORT ON CLYDE L. POWELL, FORMER ASSISTANT COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

The following is a summary of some background concerning Clyde L. Powell, former Assistant Commissioner, Rental Housing Division, Federal Housing Administration:

Mr. Powell resides at the Sheraton-Park Hotel in Washington, D. C., and maintains a legal residence at 476 North Kingshighway, St. Louis, Mo.

The records of the Federal Housing Administration indicate Clyde L. Powell was born March 2, 1896, at Salem, Mo.; served in World War I, having enlisted in September 1917 and being discharged in May 1919. He claimed 17 months' service in France and claimed attendance at the University of Missouri engineering department, from 1914 to 1917, without graduation.

Recent inquiry indicates there is no record of Clyde L. Powell attending Missouri University, Columbia, Mo., or the Missouri School of Mines, Rolla, Mo., during the period 1914–17.

The records of the St. Louis, Mo., Police Department reflect that a Clyde L. Powell, was C. Clyde Powell, and Robert Lane, age 19 years, a bellboy, was arrested on March 29, 1916, for larceny from a dwelling. It is reported that this individual had two pawn tickets in his possession at the time of arrest. The records reflect he admitted these pawn tickets were for a ring and a pair of gold cuff links stolen from two different hotel guests. On May 2, 1916, the above-described Clyde L. Powell was sentenced to 1 year in the workhouse and was paroled on the same date. The records of the circuit clerk for the criminal causes court, St. Louis, Mo., reflect that a Clyde L. Powell, on May 2, 1916, upon entering a plea of guilty, was sentenced to 1 year in the workhouse for larceny of a ring valued at $25 from I. C. McNiece, of the Washington Hotel, St. Louis, Mo. It appears that this Clyde L. Powell was paroled on the same date, and ordered to report by letter to the judge. The circuit clerk's records show an application for pardon, dated May 2, 1916 (same day as sentencing), and signed the same date. This application indicates the applicant, Clyde Powell, was born March 2, 1897; was employed at the Washington Hotel; and gave his home address as Salem, Mo.

Your attention is invited to the identity of name and home—Salem, Mo.—with that given by Assistant Commissioner Clyde L. Powell in his Federal Housing Administration employment record. There is exactly a 1-year difference in the dates of birth and age at the time of arrest.

The identification record for one Clyde Lilbon Powell, Federal Bureau of Investigation No. 5180, reflected he entered the United States Army on June 4, 1917, at Kansas City, Mo., and was assigned Army Serial No. 805870. The identifica-

tion record reflects, further, that the same person was arrested by the Philadelphia, Pa., Police Department, on October 30, 1917, on a charge of larceny; entered a plea of guilty on November 8, 1917; was given a suspended sentence; and was discharged. The identification record shows this same Clyde Lilbon Powell was again arrested on January 12, 1920, by the Little Rock, Ark., Police Department, on a charge of suspicion. No disposition of this arrest is shown.

A search of the police records of the Little Rock, Ark., Police Department indicated one Clyde Powell of Salem, Mo., was arrested on January 12, 1920, for suspicion of passing bogus checks and was discharged. A notation on the records of the Arkansas Police Department indicates "now wanted Texarkana, Tex., and Dallas, Tex.—bad checks." The identification record reveals this same person was again arrested, this time on August 19, 1922, by the Dallas, Tex., Police Department, charged with passing a worthless check. It appears he made restitution and was released.

The military-service record of Clyde L. Powell, Army Serial No. 805870, shows he enlisted in the United States Army, Enlisted Reserve Corps, on June 4, 1917. It is noted that the serial number and enlistment date in this military-service record are identical with the number and date set forth in the above-mentioned identification record. The service record reveals Powell was unable to report for duty when called on January 15, 1918, because he was being held by civil authorities in the county jail, at Chicago, Ill., for having passed a worthless check at the Siegel Cooper & Co. The Chicago Police Department records reflect that Clyde L. Powell was arrested in Chicago, Ill., on October 17, 1917, for passing a check for $85 at Siegel Cooper & Co., Chicago, Ill., drawn on the South West Bank of Kansas City, Mo., payable to Clyde L. Powell, signed George W. Powell, which check was returned. His age was given as 23, residing at Kansas City, Mo., The service record reflects further, that Clyde L. Powell entered on active duty on April 15, 1918. The record indicates that Powell was absent without leave from December 14 to 18, 1918, and received a summary court-martial sentence of confinement at hard labor for 2 months, and forfeiture of two-thirds pay. The unexpired portion of Powell's sentence to confinement was remitted on January 28, 1919. The record also reveals Clyde L. Powell received company punishment, March 28, 1918, for missing reveille and formation. Clyde L. Powell was honorably discharged on May 8, 1919, as a private first class, by reason of expiration of his term of service.

The booking desk register for the old Jackson County Jail, Kansas City, Mo., under registry No. 4692, reveals that one Clyde L. Powell, age 22; height 5 feet, 6 inches; hair, light; eyes, blue; race, white; born Salem Mo.; was committed to jail by Justice of the Peace Clark on February 8, 1918. The charge was shown as "surrendered by bondsman." The records further reveal that the prisoner was released on March 12, 1918, on bond.

The records of the Jackson County sheriff's office, Kansas City, Mo., for the year 1917 reflected one Clyde Powell, 21; 5 feet 6 inches; chestnut hair; blue eyes; white; male; of Salem, Mo., was arrested on September 18, 1917, on charge of embezzlement and was released on bond. The record book of Justice of Peace Charles A. Clark, Kaw Township, Jackson County, Mo., Docket No. 3975, reflected Clyde Powell and Clara George, on September 18, 1917, were charged with embezzlement. The Kansas City Times of September 19, 1917, on page 10, reports as follows:

"HOTEL ACCUSES EMPLOYEES—EMBEZZLEMENT OF MUEHLEBACH MONEY CHARGE AGAINST COUPLE

"Clyde L. Powell, assistant auditor of Hotel Muehlebach, was arraigned on a charge of embezzlement before Judge Charles H. Clark, yesterday afternoon, and placed in the county jail in default of $1,000 bond. He and Miss Clara George, cashier of the Plantation Grill, were charged with having embezzled $450 of the hotel's money. Powell pleaded not guilty. His hearing was set for September 28. Miss George was ill and unable to appear yesterday. Powell is 25 and Miss George is 38 years old."

The records of the St. Louis, Mo., Police Department reflect, further, that a Clyde Powell, age 34–35, a broker by profession, residing at 4406 McPherson, St. Louis, Mo., was arrested on March 17 and April 14, 1931, for failure to have a State automobile license. It has been ascertained that Clyde L. Powell, Assistant Commissioner, Federal Housing Administration, was a real-estate broker in St. Louis, Mo., in 1931, and at that time resided at Hampden Hall Apartments, 4402–4406 McPherson, St. Louis, Mo.

According to the date of birth given in his Federal Housing Administration employment record, Clyde L. Powell would have been 35 years old on March 2, 1931.

The criminal records of the Metropolitan Police Department, Washington, D. C., reveal that one Clyde Powell, age 45; white; occupation, clerk; marital status, single; address, Wardman Park Hotel; had been arrested at 2:35 a. m. on July 16, 1943, and had been charged with being disorderly. The disposition reflected that Powell elected to forfeit $5.

The identification record referred to above also reveals that the Civil Service Commission had submitted two fingerprint cards for the same Clyde Lilbon Powell. One dated August 14, 1941, gives Powell's position as Assistant Administrator, Federal Housing Administration, Washington, D. C., and contains the statement: "I have never been arrested" in response to the inquiry concerning an arrest record. The second fingerprint card submitted by the Civil Service Commission, dated January 10, 1948, shows Powell's position as Assistant Commissioner, Rental Housing Division, Federal Housing Administration, Washington, D. C. On this latter card, in answer to the question, "Have you ever been arrested for any reason whatsoever"? there is a cross mark in the space next to the word, "No." The arrest record of Clyde Lilbon Powell, as recorded in the identification record referred to above, was furnished the Civil Service Commission on October 22, 1941, and, on March 31, 1948, by the Federal Bureau of Investigation.

The fingerprint cards referred to above, describe Clyde Lilbon Powell with the identical full name, date of birth, employment, and residences in 1941 and 1948, as appear in the employment records of the Federal Housing Administration for Clyde L. Powell, Assistant Commissioner, Federal Housing Administration. The fingerprint cards are part of the identification record described above.

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